

THE DEPARTMENT OF STATE



Bulletin

Vol. XL, No. 1027

March 2, 1959

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The Department of State BULLETIN, a weekly publication issued by the Public Services Division, Bureau of Public Affairs, provides the public and interested agencies of the Government with information on developments in the field of foreign relations and on the work of the Department of State and the Foreign Service. The BULLETIN includes selected press releases on foreign policy, issued by the White House and the Department, and statements and addresses made by the President and by the Secretary of State and other officers of the Department, as well as special articles on various phases of international affairs and the functions of the Department. Information is included concerning treaties and international agreements to which the United States is or may become a party and treaties of general international interest.

Publications of the Department, United Nations documents, and legislative material in the field of international relations are listed currently.

Communist Pressures on Free-World Relationships

by Deputy Under Secretary Murphy¹

It is, I know, stating the obvious to suggest that the present moment is what the Europeans term a most interesting conjuncture in the state of our foreign relations. We live in a highly competitive era and under the constant pressure of a rival social system. The leadership of that system strives by every device and stratagem to promote its worldwide program, to enhance its power throughout the world, to prove that its system is the wave of the future and that our social structure based on democratic capitalism is decadent. In his genial efforts to persuade us of the value of his version of peaceful coexistence the loquacious Soviet Prime Minister, Mr. Nikita Khrushchev, perhaps to reassure himself, says, "Whether you like it or not, history is on our side. We will bury you!" And he adds, "All the world will come to communism. History does not ask whether you like it or not."

That is the main issue which divides world forces today and the reason why our foreign policy is conditioned on the fundamental struggle of the dynamic and powerful forces which oppose each other over the issue. Perhaps a weakness of our position in the struggle is the unwillingness, the reluctance, of the people of the free world to engage in a struggle into which they are literally pushed by the aggressive and unrelenting character of the Communist crusade.

Of course the free world's notion of the meaning of the words "peaceful coexistence" throughout the postwar period has been the honest, simple idea that we desire to live at peace with our neighbors, not coveting the territory of any people and content that each nation decide for itself the internal

political and social structure in which its people wish to live. But so many words in the Soviet vocabulary do not convey the same meaning to their minds that the identical words do in our lexicon. Thus "peaceful coexistence" in Mr. Khrushchev's dictionary implies a requirement that the free world accept the inevitability of communism, that it accept the *status quo* in those areas where the Communist system has been imposed by force and maneuver, that it offer no resistance anywhere to the propagation of Communist ideology and the expansion of the Sino-Soviet bloc, and especially that it not resort to positions of strength. He describes deviation from that formula as warmongering.

Under the circumstances, and with the time you have so kindly allocated, it might be well to discuss generally the state of relations between the free world and the Sino-Soviet bloc as this overshadows our entire foreign policy. I will try to show how this affects our relations in some of the major world areas. After that I shall do my best to answer questions, should you have any.

Free World-Soviet Bloc Relations

A fair conclusion drawn from the events of 1958 in the Far East, the Middle East, and more recently those involving Berlin and Germany is that a major change in the relative power positions as between the free world and the Communist forces is not imminent. In a material sense it would seem that there is as favorable a prospect for continued substantial industrial and economic growth in the Western World as there may be in the Sino-Soviet bloc. On balance I believe that the political trends seem to be running more favorably to the West than to the bloc countries. These trends have been

¹Address made before the Worcester Economic Club, Worcester, Mass., on Feb. 10 (press release 101).

stimulated by the free-world success in the Middle East, in the Formosa Strait issue, and by the firm stand on the Berlin question.

This country remains closely associated with its partners in the North Atlantic Alliance and the other treaty relationships, such as the Southeast Asia Treaty Organization, in which it participates with 42 nations. One of the objectives of the Soviet leadership is to separate this country from its allies.

We continue acutely aware of the importance of the countries of Eastern Europe. We understand the predicament in which the peoples of those areas exist under Soviet domination and restrictions. We know how closely related their problems are to the German question. We continue to cooperate in a practical way with the free government of Yugoslavia, determined as it is to pursue its own independent course, free from great-power pressures.

There should be no doubt that your Government observes closely the developments occurring in Communist China. We are watching carefully the crude experiment in human bondage now operating in the mainland communes. In point of sheer numbers this is the most massive social experiment in world history and the most ruthless. It is accompanied by continued Sino-Soviet cooperation in the economic, political, and military fields. No doubt this involves many anxieties on the Soviet side and a considerable drain on Russian resources. We have just been told of an important agreement by the U.S.S.R. to supply a variety of industrial plant equipment valued in the neighborhood of \$1¼ billion equivalent. No doubt Peiping is absorbed with internal Chinese problems and developments which distract it from an active foreign policy, although its eagerness to play a leading role in world affairs is manifest from the statements of its leaders, such as that of Chou En-lai the other day at Moscow. We maintain an informal contact with the Communist regime through ambassadorial talks in Warsaw.

We remain loyal to our alliance with the Republic of China. The Chinese Communist regime continues its policy of coercion and threats regarding the offshore islands and Formosa.

As you know, the keystone of our policy of collective security is the North Atlantic Alliance. The solidarity of that alliance is cause for satis-

faction. The Soviet leadership regularly asserts its suspicions regarding the fact that the United States has established military bases in various world areas. These suspicions are related to expressed Russian doubts and apprehensions concerning the future peaceful intentions of the United States. The Russian leadership assert that they do not understand why we should maintain such bases unless we intend to attack the Soviet Union. They prefer to forget the reasons which led to our policy of collective security and forward strategy. I suppose they remember our hasty demobilization after World War II. They undoubtedly recall with satisfaction those postwar years when we neglected to a large extent our military establishment and our advanced weapons technology, including the field of missiles and rocketry. We then concentrated our national energies on the economic and social adjustments necessary after a tremendous war effort. I am not sure that they do understand that. But we remember that the Soviet Union lost hardly a day after World War II in the development of a powerful military establishment, in ambitious plans for a huge submarine fleet, a tremendous air arm, nuclear weapons in whose development the wartime information gained from the United States was an invaluable asset. They spared no effort or expense and laid hands on every possible German scientist and specialist in the field of rocketry and missiles.

As their power grew it was accompanied by ambitious political projects of expansion which led to the seizure of Czechoslovakia, to the Berlin blockade, and to Korea. Thus the realization dawned on us finally that we were in the presence of an all-out organized effort to dominate the world. It was old-fashioned Russian expansionism fortified by a worldwide ideological dream under the banner of international communism.

Inevitably this led to the adoption of a policy of collective security by the countries of the free world, including our own. A policy of forward strategy was unavoidable. In this age of new and staggering developments in weapons technology it was evident that the burden was too great for any single country to bear alone in isolation. Our first major step was participation in the North Atlantic Alliance, which now joins 15 nations in a solid defensive grouping. Our participation marked a major departure from American traditional senti-

ment, which had opposed our joining in such alliances since the earlier days of our national history. Now necessity left no alternative.

21st Communist Party Congress

Great attention in the field of foreign affairs has naturally been directed to the convocation in Moscow of the 21st Congress of the Communist Party at the end of January, not quite 3 years after the 20th Party Congress, which was memorable for the downgrading of Stalin. Virtually the only formal business before this Congress was Premier Khrushchev's ambitious 7-year plan for economic development. But the Congress came at a time of important changes in the world scene, both within the Soviet Union and beyond it. Whether or not these developments appear on the agenda, they must be considered as we listen to the statements of Soviet leaders at this time.

One important change is the emergence of Nikita Khrushchev in what appears to be a dominating position in the U.S.S.R., the climax of a struggle between a faction headed by Mr. Khrushchev and one headed by Messrs. Malenkov and Molotov. We are told that the Khrushchev group favors experimentation and reform in practical operational matters, with adjustments of theory as required, while the other faction, although not opposed to changes, nevertheless wished to keep policies and methods essentially as they were, on the theory that time had tested and proven their merit.

Other developments include the failure of co-operation between Socialist and Communist parties abroad, as advocated by the 20th Party Congress; the diminished influence and appeal of Western European Communist parties; a significant shift away from communism by governments of many Middle and Far Eastern countries; and the supposed opening of new opportunities for the expansion of Soviet influence in Africa and South America.

The major event of the 21st Congress was the long speech by Nikita Khrushchev. In it the Soviet Premier reaffirmed the line that peaceful co-existence with the West is now possible, describing it as the basis of Soviet foreign policy. However, his endorsement of the relatively tough Soviet policy line which has emerged in the past year and the tone of confidence in the strength and achievements of the Soviet bloc raise the possibility that the Soviet leaders in the future may be prepared to

incur greater risks in the pursuit of Soviet foreign policy objectives.

Mr. Khrushchev's confidence was qualified, however, to the degree that the old theme that the capitalist world is crisis-ridden and afflicted with "insoluble contradictions" was touched on only briefly, possibly indicating that impressions of Western strength were conveyed to the Soviet leadership by Mr. Mikoyan.

The speech by China's Chou En-lai before the Congress was more militant than Khrushchev's, suggesting the contrasts the West may face in dealing with China or Russia and suggesting also the possibility of future differences between those two powers. Both Khrushchev and Chou seemed sensitive to Western speculations of difference between the two nations, both of them denying that any such differences exist.

In contrast to the lack of emphasis by Khrushchev upon the "contradictions" of Western society, Chou declared that "the enemy rots away with every passing day." While Khrushchev argued that growing Communist strength makes war less inevitable, Chou warned that "imperialist war maniacs may stake their hopes on war."

The speech by First Deputy Premier [Anastas I.] Mikoyan, in comparison with that of Chou, was quite moderate in theme, tone, and language. He devoted most of his speech to reporting on his American trip.² His central theme was that the American people clearly want peace, good relations with the Soviet Union, and an end to the cold war. Like Khrushchev, he emphasized that war is not inevitable and said that lasting peace may be assured even while the world is partly capitalist. This point represents a new doctrinal step beyond the "war is not inevitable" dogma enunciated at the 20th Congress 3 years ago. It may have resulted, at least in part, from criticism Mikoyan heard in the United States that Soviet Communist doctrine provides no future for the West except war or conquest by communism.

Berlin

On Berlin and Germany Premier Khrushchev did little more than reiterate previous Soviet proposals and launch a sharp attack on Chancellor Adenauer. Mikoyan said very little in his speech about Berlin and Germany, and nothing new. He

² Mr. Mikoyan made an unofficial visit to the United States Jan. 4-20.

did, however, report in some detail the fact that Americans of both political parties had made clear to him that our policy on Berlin has firm bipartisan support.

There was some concern voiced in this country shortly after Mikoyan returned to Russia that he might have taken the wrong impression back to Khrushchev about America's intentions, that he might confuse debate between us with division among us, or that he might mistake courtesy for weakness. Apparently he has made no such mistake. He apparently recognized the facts and reported them to his colleagues. This practical, realistic approach is perhaps a sign of the ability which not only brought Mr. Mikoyan to a high place but has kept him there.

The United States Government is under no illusion as to the dangers inherent in the Berlin situation. A miscalculation there by either side could lead to complications of the gravest sort. But neither are we under any illusion as to the importance of Berlin—to Germany, to Europe, and to every free nation, including this one. If the Western nations should default their obligations there, this also would unquestionably lead to grave complications. Therefore, as President Eisenhower put it in his state of the Union message,³

Acting with other free nations we have the solemn obligation to defend the people of free Berlin against any effort to destroy their freedom.

While we are resolved to stand firm on Berlin, however, we are not less resolved to seek every opportunity for meaningful negotiation of the German question. It is with the purpose of exploring every avenue to negotiation and seeking the agreement of our allies on a joint position that Secretary Dulles recently visited London, Paris, and Bonn.⁴

Opinions differ as to what the chances are for a realistic, reasonable negotiation with the Soviet Union at this time. At this stage, it seems to me, it is more constructive to know clearly what our own decisions are, and to carry them out to the limit of the strength and wisdom God gives us, than to seek too hard to read the minds of the other side.

If we can negotiate successfully, we shall. If

we cannot, then we must face the requirements of whatever comes next.

Western Unity

Not only did Mr. Mikoyan give full weight in his speech to America's bipartisan unity in the field of foreign policy; he acknowledged also that leaders of both parties assured him that this country continues to maintain a common policy on Europe with its NATO allies.

This country does indeed maintain a common policy with its allies, a fact dramatized by the personal consultations just held in Europe by our able Secretary of State. We are glad Mr. Mikoyan observed this fact also and reported on it.

Later in his speech the First Deputy sounded the standard theme of Russia's "serious suspicions" regarding the existence of military bases in lands near her borders and America's security arrangements with neighbors of the Soviet Union. The Soviet leaders continue to accuse the United States of engaging in cold-war methods. No matter how defensive, no matter what the provocation, it is the West, according to them, which is guilty of the cold war.

They fail to take note of the fact that the cold war had its beginning in a speech by Josef Stalin in Moscow in February of 1946, when Stalin declared that the wartime alliance had been dictated by expediency alone. He reminded his listeners that Communist doctrine considered war with the capitalist countries inevitable. He outlined the economic plans which were to lay the basis to fight what he called the "inevitable" future war. The Soviet leaders also fail to acknowledge the fact that in announcing the Marshall plan in June of 1947⁵ Secretary of State Marshall declared, "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos," and he invited the Soviet Union to share in Marshall plan aid.

In the matter of military alliances and military bases, let it be remembered that the Soviet Union has remained in actual military occupation of other countries since the end of World War II, for what it declared to be reasons of its own security, despite the fact that the other wartime allies, not merely by words but by the act of dis-

³ BULLETIN of Jan. 26, 1959, p. 115.

⁴ See p. 296.

⁵ BULLETIN of June 15, 1947, p. 1159.

mantling their military establishment, made it clear at the end of the war that they had no aggressive ambitions. It was only after Soviet aggressive expansion in Eastern Europe, the Berlin blockade of 1948, the takeover in Czechoslovakia, and Communist aggression in Korea that the free-world powers resorted, purely in self-defense, to a system of collective security.

The Soviet leaders gloss over with pious language the growth of their own immense, centrally controlled military establishment, which makes a system of collective security inevitable if the free world is to survive, especially the many nations situated in Europe and Asia relatively near to the frontiers of the Soviet bloc. The speech of Premier Khrushchev at the 21st Party Congress again demonstrates the "missile rattling" which has now become a familiar theme of Communist propaganda. Surely Mr. Khrushchev does not expect that this obvious cold-war technique will encourage us to dismantle our defenses.

"The Thaw"

At a reception shortly before the opening of the 21st Congress, it is reported that Premier Khrushchev spoke of "the possibility of a thaw" in East-West relations, and in his Congress speech he said,

... In America there is a growing number of adherents of friendly, neighborly relations with the Soviet Union.

You and I know very well that in America there is a large number of adherents of friendly, neighborly relations with *every* country. As Mr. Mikoyan rediscovered, we are an open, friendly people. It was out of this spirit of friendliness, a spirit of complete good faith, that we demobilized at the end of the Second World War. In the same good faith, with the same good will, we sought with all our power to find the means of practical cooperation with the Soviet Union. Berlin, in a sense, was a "test tube" in which the possibilities of cooperation were tried out. We made concession after concession. We went the "second mile" and further.

But in the eyes of the men of the Kremlin the concessions we made then were not a sign of good will but of weakness. A period we saw as a chance for peace they saw as a chance for expansion.

Now the leaders of the Soviet Union tell us they want to be friends. We hope they do. But let us remember that, while Soviet words have changed,

their policies so far have not. This was made clear by the Mikoyan visit and confirmed by the Khrushchev speech. And let us bear in mind that Berlin, the original test tube of friendliness and cooperation, has again been used by Moscow to intensify the cold war. Let us keep in mind also the pattern of zigzag, of hot and cold, of Soviet policy since the death of Stalin. And let us remember that while Mr. Khrushchev in his New Year's message to the United States^{*} was wishing us well-being, happiness, peace and tranquillity, Soviet propaganda was declaring to the world that the United States had supplied Batista with bombs, guns, and napalm and that the United States "will now have to pay."

It is our hope that eventually, as Soviet society matures and the facts of life in a thermonuclear age have their effect, the full, fanatic hostility of communism may soften. But we have only Communist words, not deeds, to indicate that this is so today. We must be realistic in dealing with Communists as they are, not as we hope they will be. The extent to which the professional Party apparatus, for whom Communist doctrine serves as justification for existence, has filled the political vacuum left by the collapse of Stalin's complicated system of checks, balances, and terror and the influence of the present extremely virulent stage of the Chinese Communist revolution make it necessary for us to allow for the possibility that the next few years of Soviet policy might be more, rather than less, hostile toward us, whatever its outward guise.

Uncommitted Areas

As I noted earlier, the 21st Congress comes at a time of an apparent shift away from communism on the part of the governments of some Middle and Far Eastern countries and when the Communist leadership apparently sees opportunities for expanding Soviet influence in Africa and South America.

For understanding the problems of the Afro-Asian area it is important to recognize that, although both East and West have a great concern with the course of developments there, the major forces at work originate not from the outside but from within. Someone has said that the emer-

^{*}For the text of a message to President Eisenhower from Kliment Voroshilov and Nikita Khrushchev, see *ibid.*, Jan. 26, 1959, p. 131.

gence of those peoples to independence, and their striving toward economic and social advancement, is the most important fact of the mid-20th century.

The effort of Western policy is to assist this historic development with two purposes in mind: first, to keep it in peaceful channels and prevent an explosion that might involve everyone; second, to encourage trends favorable to full independence and democratic institutions.

The increasing knowledge in all that area of the true nature of communism comes in part, perhaps, as a result of the Hungarian suppression, because of the manipulations of Soviet economic aid to Yugoslavia, because of the shocking reports of the Chinese communes, and because of the implications of the Pasternak affair.

The prompt and sympathetic response of the United States and other Western nations to the economic and financial needs of Asian development has underlined the contrast between the policies of the free world and those of the Soviet bloc. Our efforts help to remind those nations that they have an alternative to Communist methods and Communist help in seeking to advance. It is an important article of Western policy simply to preserve for them this freedom of choice. It is fundamental to Communist purposes eventually to deny them this choice. We are glad these nations themselves are becoming more aware of the difference.

The upsurge of nationalism and the awakening of peoples are particularly dramatic on the African Continent. A major problem there is the adjustment between the relationship of dependent territories and the governing European countries. Although violent incidents do from time to time occur in this process—the birth pangs of a nation are seldom painless—in general we are witnessing a normal pattern of development, as the African areas ready themselves for independence and the governing countries give consideration to the problems this raises.

Here as elsewhere our Government maintains friendly contact with these historic movements in a spirit of cooperation and helpfulness.

In the Middle East, where political evolution has been particularly rapid, I am glad to say there is an improved understanding of American policies and objectives. We shall hope and work for

betterment of conditions and constructive solutions of difficult problems, such as those involving Arab-Israeli relations and refugees.

In summing up, I would like to strike an encouraging note based on the inherent strength of our world position. This is not the moment for smug complacency, but by the same token dark foreboding is both unwise and unjustifiable. I find that in the major world areas—Europe, the Middle East, Africa, Latin America, and the Far East—there are affirmative factors and free-world assets which with faith and determination offer ample guaranties for our future security.

Secretary Dulles Exchanges Views With European Allies

Following is a statement made by Secretary Dulles on February 3 before his departure for Europe, where he talked with government leaders of France, the United Kingdom, and the Federal Republic of Germany and with the Secretary General of the North Atlantic Treaty Organization, Paul-Henri Spaak, together with a statement made at the National Airport, Washington, D.C., upon his return on February 9.

STATEMENT OF FEBRUARY 3

White House press release dated February 3

I have discussed with the President my visit to London, Paris, and Bonn, on which I am now leaving. We considered together the highly complicated situation that is developing as a result of Soviet threats, particularly with respect to Berlin.

I feel that it will be useful now to have talks with the leaders of the Governments of the United Kingdom, France, and Germany, and with Secretary General Spaak, as we together consider plans for our future actions. I also expect to explore the possibility of subsequent talks about Germany among the representatives of the four powers which have the responsibility for the settlement of the German question and the reunification of Germany: Great Britain, France, the Soviet Union, and the United States. I hope that some long overdue progress can be made in this respect, just

as we have the same hope with reference to disarmament.

The President and I have no doubt that my personal and intimate talks with leaders of those who share a common destiny will serve to solidify the unity of the Western allies and to demonstrate once again our determination not to yield before threats.

STATEMENT OF FEBRUARY 9

Press release 99 dated February 9

I have talked in London, Paris, and Bonn with governmental leaders of those countries and with Secretary General Spaak of NATO.

We have had a useful exchange of views primarily on the serious situation created by Soviet threats and repudiations concerning Berlin.

We have reconfirmed the unity and firmness of our position expressed in the joint communique of the four powers at Paris December 14.¹ We do not accept the substitution of East Germans for the Soviet Union in its responsibilities toward Berlin and its obligations to us. We are resolved that our position in, and access to, West Berlin shall be preserved. We are in general agreement as to the procedures we shall follow if physical means are invoked to interfere with our rights in this respect.

We discussed the whole problem of Germany. We exchanged views on the prospects for a foreign ministers meeting with the Soviet Union at which all aspects of the German problem can be discussed, not only Berlin and a peace treaty, as the Soviets propose, but also reunification and European security, as the Western powers have proposed.

We are willing to talk with the Soviets in a sincere effort to reach agreements.

The leaders of the British, French, German, and United States Governments will keep in close contact on the German situation, and their foreign ministers contemplate meetings as may be appropriate. Officers at other levels will be in consultation on specific questions.

I return encouraged by the unity, understanding, and resolution in the three countries I visited.

¹ BULLETIN of Dec. 29, 1958, p. 1041.

Working Group To Meet Again To Discuss Position on Germany

Press release 112 dated February 13

An *ad hoc* Working Group consisting of representatives of the United Kingdom, France, the Federal Republic of Germany, and the United States has been meeting in Washington in a spirit of cordial cooperation since February 4. The principal responsibility of the Working Group has been the drafting of replies to the Soviet note of January 10, 1959. It has also discussed in a preliminary way some of the substantive problems involved in the development of a Western position.

The Working Group has concluded the present phase of its consultations. It will meet again in Paris at the beginning of March to continue its work. If developments warrant, the Foreign Ministers of France, Germany, the United Kingdom, and the United States may convene in Paris before the April NATO meeting.

President Has No Plans To Visit Soviet Union

*Statement by James C. Hagerty
Press Secretary to the President*

White House (Thomasville, Ga.) press release dated February 6

Premier Khrushchev's invitation to President Eisenhower to visit the Soviet Union occurred in a lengthy speech which contained very hostile references to U.S. leaders. It seems strange that Premier Khrushchev, if he really welcomes a visit by the President, would extend it in such circumstances.

The President has no present plans to make such a visit—in fact he hasn't received any invitation, except through the reports of an offhand invitation extended in a political speech.

Ever since he has been in office, President Eisenhower has always made it clear that he was willing to go anywhere in the world if, by so doing, such a visit would serve the cause of peace. Should future developments suggest that a visit to the Soviet Union—or anywhere else—would serve to advance this cause, then it certainly would be considered.

The Universality of Lincoln's Ideals

Remarks by President Eisenhower¹

Ninety-eight years ago today the President-elect of the United States boarded a train in Springfield, Illinois, to start the long journey to his Nation's capital. That same day a Washington newspaper reported the election in Montgomery, Alabama, of another president, Jefferson Davis, and from Fort Sumter came a report of "preparations for attack."

In bidding farewell to Springfield, Lincoln shared his innermost thoughts with old friends. In part, he said: "I now leave, not knowing when or whether ever, I may return, with a task before me greater than that which rested upon Washington. Without the assistance of that Divine Being Who ever attended him, I cannot succeed. With that assistance I cannot fail."

Four years and two months later Abraham Lincoln was dead—but the Union again united. Now, said Secretary of War Stanton, "he belongs to the ages."

But Abraham Lincoln belongs not only to the ages but to all humanity. Immortality is his in the hearts of all who love freedom everywhere in the world.

Each year 2 million people visit the Lincoln Memorial in Washington.

In New Delhi a Lincoln Society is establishing a museum in his honor.

High school students in Tokyo last summer ranked him as the most respected of all world figures.

"Of all the great national statesmen of history," Russia's Tolstoy thought, "Lincoln is the only giant."

In the Caucasian Mountains a wild chieftain asked of a visitor, "Tell us about the greatest ruler in the world. We want to know something about this man who was so great that he even forgave the crimes of his greatest enemies and shook brotherly hands with those who had plotted against his life."

The first President of modern China, Sun Yat-sen, found his three basic principles of government in Lincoln's Gettysburg Address.

For many years India's Prime Minister Nehru

has kept, on the study table, a brass mold of Lincoln's right hand. "I look at it every day," Nehru tells us; "it is strong, firm and yet gentle . . . it gives me great strength."

The birth, 150 years ago, which we here honor, gave the Nation a son who a half century later was summoned to lead our Republic through the tragedy of civil war. And as Lincoln fought for union and liberty he insisted always that "the struggle of today is not altogether for today—it is for a vast future also."

As we turn our eyes to that future, other words of his seem applicable. He said: "The tendency to undue expansion is unquestionably the chief difficulty. How to do something, and still not do too much, is the question. . . . I would not borrow money. I am against an overwhelming, crushing system. Suppose, that at each session, Congress shall first determine how much money can, for that year, be spared for improvements; then apportion that sum to the most important objects."

That the spirit of Lincoln be close at hand as we meet each successive challenge to freedom is the earnest hope of all Americans—indeed it is the hope of freedom's sentinels wherever they stand.

Pushing always ahead in our quest for a just peace and freedom for all men we can do no better than live by his prescription: "by the best cultivation of the physical world, beneath and around us; and the intellectual and moral world within us, we shall secure an individual, social, and political prosperity and happiness, whose course shall be onward and upward, and which, while the earth endures, shall not pass away."

President To Join In Ceremonies Opening St. Lawrence Seaway

White House press release dated February 11

The White House announced on February 11 that President Eisenhower will go to Canada June 26 to join Queen Elizabeth II in the ceremonies marking the opening of the St. Lawrence Seaway at the St. Lambert Lock near Montreal.

The President and Mrs. Eisenhower will fly from Washington to Montreal in the morning and join Her Majesty and Prince Philip on the royal yacht *Britannia* for the opening ceremonies.

¹ Made at the National Lincoln Sesquicentennial Dinner at Washington, D.C., on Feb. 11 (White House press release).

Details of the program are being worked out by officials of the Canadian and the U.S. Governments.

A similar announcement is being made by Prime Minister Diefenbaker.

Letters of Credence

Chile

The newly appointed Ambassador of Chile, Walter Muller Hess, presented his credentials to President Eisenhower on February 13. For texts of the Ambassador's remarks and the President's reply, see Department of State press release 110.

Anniversary of Declaration of Baltic Independence

Statement by Secretary Dulles

Press release 113 dated February 14

This year we commemorate the 41st anniversary of the declarations of independence of Lithuania, Latvia, and Estonia. At this time it is well for the free world to recall the step-by-step process by which the independence of the Baltic peoples was destroyed after two decades of freedom and progress.

In treaties with Lithuania, Latvia, and Estonia signed in 1920, Soviet Russia pledged itself to renounce forever all rights of sovereignty in the three countries. Similar pledges were embodied in other agreements signed in the following two decades. The last agreements were pacts of mutual assistance, negotiated at the insistence of the Soviets in September and October of 1939. These pacts authorized the stationing of Soviet forces in the Baltic states. The Soviet Minister of Foreign Affairs gave solemn assurances that the pacts were innocent and protective in nature, stating that they expressly stipulated the inviolability of the sovereignty of the Baltic states. During the weeks preceding the conclusion of the pacts, however, the U.S.S.R. had already signed secret protocols with Nazi Germany which recognized the Baltic states as belonging in the Soviet sphere of influence. Immediately after the signing of the pacts of mutual assistance, the U.S.S.R. com-

menced sending troops into Lithuania, Latvia, and Estonia. In June 1940 the Soviets demanded that the Governments of the three Baltic states be reorganized, demands which the Baltic states were powerless to resist. The military occupation of Lithuania, Latvia, and Estonia began simultaneously with the formation of new Governments. There followed rigged elections which resulted, in July of 1940, in the incorporation of the Baltic states, as Soviet Socialist Republics, into the Soviet Union.

The United States was quick to denounce this aggression and refused to recognize the forced incorporation of the Baltic states into the U.S.S.R. Today, over 18 years later, we wish to assure the people of Lithuania, Latvia, and Estonia once more that they are not forgotten. The United States still aspires, in the words of the Atlantic Charter, "to see sovereign rights and self-government restored to those who have been forcibly deprived of them."

DLF Loan for Bolivian Sugar Mill

The Department of State announced on February 5 (press release 95) that the U.S. Development Loan Fund and Gasser y Cia., Industries "La Belgica" S.A., signed an agreement on February 5 by which the DLF will lend the company \$2.5 million for use in expanding its sugar mill near Santa Cruz in Bolivia.

The Gasser firm, with its sugar mill and related enterprises, presently employs 500 people directly, operates 3,000 hectares (7,413 acres) of its own land, and buys sugarcane from neighboring farmers. Eight thousand people are estimated to depend on this enterprise for their livelihoods.

The DLF loan will permit expansion of the firm's output from 12 million pounds of sugar a year to 34 million pounds. This in turn will provide increased employment and a market for further agricultural production in the area. This mill machinery will be purchased in the United States.

The plant's expanded output will save \$1.1 million in foreign exchange now spent for Bolivian sugar imports—a factor important to the Bolivian economy. Depressed markets for tin and tungsten have created a shortage of foreign exchange in that country. The loan will be repayable in 10 years, and the interest rate is 5½ percent.

United States Balance of Payments With Latin America During the First Three Quarters of 1958

by Walther Lederer and Nancy F. Culbertson

The total of our payments to Latin America resulting from merchandise imports, service transactions, Government grants and credits, and private investments during the first three quarters of 1958 was about \$4.4 billion, about \$600 million or 12 percent less than during the corresponding period of 1957. The 1957 payments included, however, about \$360 million invested in new oil concessions in Venezuela, which may be considered a special nonrepetitive transaction. Excluding these transactions, the decline in United States payments was about \$220 million or about 5½ percent.

Our payments to Canada and the European dependencies declined at a slightly higher rate than those to Latin America, but payments to Europe and the independent countries of Asia and Africa

were somewhat higher. Overall, our payments abroad declined over the period by about 1 percent.

The decline in our payments to Latin America slowed down, however, as the year progressed. Compared with the corresponding period in 1957 (and excluding the special payments to Venezuela), the first quarter was lower by \$130 million, the second by \$66 million, and the third by \$63 million.

United States imports of merchandise from Latin America, which comprise nearly two-thirds of our total payments, fell from the first 9 months of 1957 to the corresponding period this year also by about 5½ percent. Relatively more important was the drop in the net outflow of United States capital—even after exclusion of the special payments to Venezuela mentioned before. Payments for services were up slightly.

United States receipts from Latin America, principally from the export of goods and services and from income on U.S. investment, declined during the same period by about \$470 million or nearly 10 percent. This was somewhat less than the decline in our total payments to the 20 Republics but about twice the rate of the decline in payments after exclusion of the payments for the Venezuelan oil concessions. Merchandise exports declined by about 9 percent, but income on U.S. investments in that area was about 18 percent lower.

The decline in investment income was about as large as the decline in merchandise imports and offset about half of the decline in U.S. payments (excluding the Venezuelan concessions).

• This article is the sixth in a series on the balance of payments between the United States and the Latin American Republics. The first five articles appeared in the BULLETIN of March 26, 1956, p. 521; December 24 and 31, 1956, p. 983; July 8, 1957, p. 79; January 6, 1958, p. 23; and August 25, 1958, p. 311. The authors are members of the Balance of Payments Division, U.S. Department of Commerce. The data on which this article is based were prepared by the Balance of Payments Division and published in the December 1958 issue of the Survey of Current Business, the monthly periodical of the Office of Business Economics.

Balance Improves for Latin America

Although transactions between the Latin American Republics and the United States in 1958 were smaller than in 1957, they were better balanced. During the first quarter of 1957, U.S. payments slightly exceeded payments by Latin America to the United States.

During the second quarter the excess of our payments widened but not as much as the rise in concession expenditures. Without the latter, Latin America would have had a deficit with us of about \$100 million. During the third quarter of 1957 this deficit would have widened to about \$150 million. Beginning with the fourth quarter of 1957 it started to decline, however, and by the second quarter of 1958 the balance of payments shifted again to a Latin American surplus. During the third quarter this development seems to have been interrupted, but some of the major factors responsible for that reversal appear to have had only temporary significance.

The movement in total Latin American gold and liquid dollar holdings, however, did not correspond to the area's transactions with the United States.

During the first three quarters of 1957 Latin American countries increased their holdings more than their estimated transactions with the United States would have made possible. Apparently they also had a net inflow of dollars in settlement of their transactions with other countries or possibly through some unrecorded transactions with the United States. Beginning with the fourth quarter of 1957, however, gold and liquid dollar holdings of the Latin American Republics declined, although the balance of their transactions with the United States, as recorded in the U.S. balance of payments, improved. From this it seems that gold and dollar movements resulting from their transactions with other countries, and possibly from unrecorded transactions with the United States, had changed from a net gain to a net loss for Latin America and that this loss continued through the third quarter of 1958.

Some supporting evidence for the change in Latin American transactions with other countries than the United States may be found in the data on trade between Europe and Latin America, although settlements for this trade may not always involve gold and dollar transfers. These data show a decline in European imports between the

first half of 1957 and 1958, while exports were slightly higher in the latter periods. Lower imports of oil from Venezuela explain only a part of the decline in European imports from that area. Imports from other countries were also down significantly. Some of the decline shown in European import data may be attributed to lower shipping costs, however, which are included in these data but do not necessarily represent lower payments to Latin America.

To a large extent the changes in gold and dollar holdings of the Latin American Republics reflect the movements in the holdings of Venezuela. The latter increased during the first three quarters of 1957 from about \$1,060 million to nearly \$1,620 million and declined from the end of the third quarter of that year to about \$1,235 million a year later. Gold and dollar assets of the other Republics taken together declined through the middle of 1958, but the rate of decline during the first 6 months of 1958 was considerably slower than in 1957 and some recovery occurred again during the third quarter of 1958. The slowdown in the reserve liquidations earlier in the year and the more recent increases were in part facilitated by assistance from the International Monetary Fund and some special loans by the U.S. Government, but the improvement may also reflect adjustments which were made by various governments in their countries' foreign exchange operations.

United States Imports Vary, But Total Lower

Among the major commodities imported by the United States from Latin America, coffee had the largest decline in value. The drop from the first 9 months of 1957 to the corresponding period of 1958 was about \$120 million, nearly three-fourths of the decline in total U.S. imports from Latin America during that period. About 70 percent of the decline in payments for coffee may be attributed to price changes. The volume of imports was 4 percent lower. Very little reduction in supplies received from Latin America during that period was due to a shift in our purchases to coffee producers in Asia and Africa.

The principal reason was a reduction in inventories, related to the declining trend of prices, rather than to a decline in consumption. In fact, consumption of coffee during the first 9 months of 1958 appears to have been about 4 percent

higher than during the corresponding period of 1957.

Withdrawals from inventories during the year ending September 1958 were about 65 million pounds, which approximately equals the amount by which imports during the first 9 months of 1958 were below those of a year earlier. Valued at average prices during the first 9 months of 1958, these withdrawals equal about \$30 million.

The impact of the weakened market situation, which resulted from the rise in supplies of coffee above the current and expected consumption, did not fall on all producing countries in the same proportion. Brazil and El Salvador were affected by a decline in prices, as well as by a decline in the volume of sales to the United States. United States purchases from the other major producers during the first 9 months of 1958 were about as high in volume as a year earlier, and imports from several smaller producers even increased.

Inventories at the end of September had reached the lowest point since 1955. It may be expected, therefore, that imports have to rise to meet current consumption requirements.

Other imports which declined both in quantity and in price during 1958 include nonferrous metals—primarily copper and zinc—and wool. Imports of petroleum directly from Latin America were also lower in value, but this was offset by higher imports from the Netherlands Antilles, where Latin American petroleum is refined.

For several commodities produced in Latin America the market situation in the United States was more favorable in 1958 than in the year before. Among these were sugar, cattle and meat, vegetables, and cocoa.

These diverse trends in U.S. imports had different effects on the various Latin American Republics. The countries from which imports were substantially higher during the first 9 months of 1958 than a year earlier include Mexico, Cuba, Haiti, and the Dominican Republic; among those from which imports shrank by significant amounts were Brazil, Chile, Colombia, El Salvador, and Uruguay. Purchases from Argentina and Peru also declined but by relatively smaller amounts.

The major service transactions from which Latin America derives dollar exchange do not

seem to have changed significantly. United States tourist expenditures, which in 1957 amounted to about \$400 million, were about 3 percent higher during the first three quarters of 1958 than during the corresponding period of the previous year. This rise was one of the lowest during the postwar period and may reflect, in part at least, political uncertainties in some of the nearby Latin American Republics.

Net receipts of Mexican migratory workers (excluding their maintenance expenditures in the United States), which were about \$120 million in 1957, rose during the first 9 months of 1958 by about 7 percent over those of a year earlier.

Capital Outflow Below 1957 Peak

The major changes in the outflow of funds from the United States to Latin America were in capital transactions.

The outflow of funds through direct investments during the first three quarters of 1958 was about \$300 million. During the corresponding period of 1957 over \$900 million of capital moved from U.S. parent companies to their Latin American branches and subsidiaries. The latter amount included about \$360 million paid for new oil concessions in Venezuela. The last of these payments was made in the third quarter of 1957. The decline in other investments was also to a large extent in the petroleum industry in Venezuela, but other industries and countries were also affected. Nevertheless, even at the reduced rate the outflow of capital through direct investments during the first 9 months of 1958 was higher than in the corresponding period of any year prior to 1957. On the basis of known projects, both already started and in the planning stage, it seems likely that the decline in 1958 was not an indication of diminished interest on the part of U.S. industry in Latin America and that a higher rate of investments may be resumed again.

Net outflows of other private capital, mainly short- and medium-term bank and commercial credits, were also smaller than in 1957. The decline is more than accounted for, however, by the transfer of a \$40-million loan to Colombia from private U.S. banks to the Export-Import Bank and by repayment of about \$50 million by Brazil

to private U.S. creditors which was facilitated by a special Export-Import Bank loan.

Nevertheless, Brazil's short-term indebtedness to private creditors in the United States at the end of September was about \$80 million higher than at the beginning of 1958. Mexico's short-term indebtedness increased during that period by about \$45 million and Argentina's by about \$20 million. On the other hand, major repayments of short-term debts were made by Colombia (about \$50 million) and by Venezuela (about \$45 million). The short-term indebtedness of all Latin American Republics at the end of September reported by U.S. private banks was well over \$1 billion, more than \$100 million higher than a year earlier and, except for a small reduction during the month of September, the highest amount so far recorded.

In part offsetting the decline in the net outflow of private capital was the increase in the net outflow of Government capital to nearly \$320 million during the first 9 months of 1958. During the corresponding period of 1957 net Government loans were not quite \$90 million. The outflow in 1958 included the loans to Brazil and Colombia mentioned earlier, which facilitated a corresponding reduction in outstanding private credits. The remaining rise from the previous year consisted mainly of Export-Import Bank loans to several countries, including Argentina, Chile, Colombia, Mexico, and Peru.

The United States balance of payments with Latin America does not include loans provided by the International Bank and by the International Monetary Fund, although most of the dollars disbursed by these institutions were obtained from U.S. Government and private sources. Disbursements by the International Bank during the first three quarters of 1958 were about \$56 million. Fifteen of the 20 Republics were recipients of these loans.

Net assistance by the International Monetary Fund to Latin America during the first 9 months of 1958 amounted to \$48 million. Included are net drawings of \$37.6 million by Brazil, \$10 million by Colombia, and \$8.8 million by Chile.

To a certain extent the movement of capital from the United States as well as from international organizations was directed toward those countries which had the largest decline in exports

and thus sustained their foreign exchange receipts and their foreign expenditures.

Exports to Most Countries Lower

Since changes in gold and dollar reserves of most of the Latin American Republics (Venezuela being the major exception) during the first three quarters of 1958 were relatively small, the movement in their current dollar receipts more or less determined their expenditures in the United States. For some countries and commodities, however, the decline in U.S. exports may also reflect increased competition from other industrial countries which were able to maintain their sales in Latin America better than the United States.

Exports to Brazil, Mexico, the Dominican Republic, and Haiti during the first three quarters of 1958 were higher than a year earlier; to most of the other countries they were lower. The largest decline in absolute terms was in exports to Venezuela, which dropped nearly \$140 million. In relative terms the decline was largest in sales to Uruguay, which shrank by more than 60 percent.

On the basis of data for the first half of 1958, it appears that the commodities which were most affected by the decline in exports were iron- and steel-mill products, construction machinery, tractors, automotive products (including trucks and buses), and petroleum products. In contrast both electrical and other machinery exports increased over the previous year. Shipments of most of the other commodities, including foodstuffs, textiles, metal products (other than machinery), chemicals, and photographic and scientific instruments, were about as high as a year earlier.

In general the shifts in trade reflect reduced investments in oil-producing facilities and in construction in Venezuela, affecting the demand for iron- and steel-mill products and for construction machinery; a lower demand for automotive products by Cuba and Argentina (mainly buses), partly because of increased competition from other countries; and the greater domestic output of petroleum products in Mexico. Sales of industrial machinery, which increased mainly in Mexico and Brazil and were well maintained in most of the other countries, reflect a continued high level of industrial investments. Consumer demand for American products also appears to

have been comparatively stable, which may indicate that the weakening in the markets for some of the major export products of certain Latin American countries has not seriously affected the incomes of their populations.

Investment Income Down

For many of the products exported by Latin America and produced by branches and subsidiaries of American companies, the change in the market has affected prices rather than the volume of output. Under those conditions, employment and wage payments do not decline as much as export values, but the lower prices have a more than proportional effect on the income of the owners of the enterprises. This was reflected in the decline in income on U.S. investments in Latin America between the first 9 months of 1957 and 1958 by \$120 million or about 16 percent. Most of this decline was in petroleum and mining operations.

Long-Run Problems Continue

The analysis of the transactions between the United States and Latin America during the first three quarters of 1958 suggests that some adjustments have been made by Latin American countries to limit their external expenditures to their foreign exchange receipts. For certain of their products, such as coffee and some of the metals, the demand by the United States passed a low point early in 1958, and this should be reflected in a recovery in Latin American exports. Other problems remain to be faced, however. Because of continued expansions in production in Latin America as well as in other areas, the market for certain commodities, principally coffee, remains vulnerable. Some of the capital inflow consisted of short-term credits or other emergency assistance which cannot be counted on to continue.

The long-run growth in world demand for many Latin American export products, particularly foodstuffs, is slow, and competition from

U.S. BALANCE OF PAYMENTS WITH THE LATIN AMERICAN REPUBLICS
(Millions of dollars)

| | 1957 | | | | 1958 | | |
|--|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | First quarter | Second quarter | Third quarter | Fourth quarter | First quarter | Second quarter | Third quarter |
| United States payments: | | | | | | | |
| Merchandise | \$1,062 | \$945 | \$926 | \$996 | \$967 | \$950 | \$850 |
| Services including investment income | 248 | 243 | 270 | 260 | 247 | 249 | 284 |
| Remittances | 9 | 12 | 11 | 9 | 7 | 9 | 8 |
| Government grants and other transfers | 31 | 31 | 24 | 35 | 37 | 36 | 26 |
| Direct investments (net) | 135 | 569 | 229 | 171 | 74 | 227 | -4 |
| Oil concessions in Venezuela | (15) | (255) | (90) | | | | |
| Other U.S. private capital (net) | 97 | 14 | 66 | 135 | 60 | 7 | 36 |
| Government capital (net) | 14 | 24 | 49 | 59 | 57 | 39 | 222 |
| Total U.S. payments | 1,596 | 1,838 | 1,575 | 1,665 | 1,449 | 1,517 | 1,422 |
| (Seasonally adjusted) | (1,527) | (1,853) | (1,601) | (1,693) | (1,377) | (1,508) | (1,447) |
| United States receipts: | | | | | | | |
| Merchandise | 1,068 | 1,170 | 1,153 | 1,237 | 1,059 | 1,039 | 989 |
| Income on investments | 251 | 271 | 243 | 250 | 206 | 211 | 226 |
| Services | 222 | 233 | 245 | 232 | 211 | 223 | 242 |
| Long-term investments in the United States | 11 | 3 | -1 | 6 | 4 | -6 | -6 |
| Total U.S. receipts | 1,552 | 1,677 | 1,640 | 1,725 | 1,480 | 1,467 | 1,451 |
| (Seasonally adjusted) | (1,578) | (1,648) | (1,694) | (1,674) | (1,484) | (1,450) | (1,500) |
| Balance (net payments by the United States) | 44 | 161 | -65 | -60 | -31 | 50 | -29 |
| Net gold and liquid dollar receipts by Latin America from unrecorded transactions with the United States and from transactions with other countries and international institutions | 4 | 187 | 138 | -151 | -84 | -80 | -203 |
| Increase or decrease in Latin American gold and liquid dollar holdings | 48 | 348 | 73 | -211 | -115 | -30 | -232 |

SOURCE: U.S. Dept. of Commerce, *Survey of Current Business*, December 1958.

other sources of supply has to be reckoned with. With prices of some of the major export products not rising, an increase in the per capita standard of living of the countries producing them will depend, even more than during the years since the end of the Second World War, upon investments required to increase production directly for consumption within the area, to develop new export industries, or to expand production of those goods for which export demand continues to rise. This requires increased efforts to stimulate domestic capital formation, to direct it into the most productive channels, and to attract capital from abroad.

U.S. and Brazil Negotiate New Tariff Schedule

Press release 106 dated February 12

Renegotiations between Brazil and the United States to establish a new schedule of Brazilian tariff concessions under the General Agreement on Tariffs and Trade (GATT) have been successfully concluded with the signature of a protocol to the general agreement and of related documents embodying the results of such renegotiations and of renegotiations between Brazil and a number of other contracting parties. The agreement concluded is subject to ratification by the Brazilian Congress.

The renegotiations were conducted pursuant to a waiver by Contracting Parties to the general agreement dated November 16, 1956,¹ authorizing Brazil, for urgent fiscal reasons, to put into effect a completely new and generally higher tariff, subject to Brazil's undertaking to establish a new schedule of Brazilian tariff concessions under the general agreement. The waiver also provided that the renegotiation might include withdrawal or modification of concessions of other countries to Brazil if considered appropriate to reestablish a mutually satisfactory balance of concessions.

The new Brazilian tariff substituted generally higher ad valorem duties under a new nomenclature for the specific duties of the old tariff, the effectiveness of which had largely disappeared as a result of depreciation of the cruzeiro. The institution of the new tariff was accompanied by a

reform of Brazil's foreign-exchange structure, some of the protective incidence of which was incorporated into the new tariff.

On October 31, 1957, public announcement of U.S. intention to participate in these renegotiations was issued² and hearings were set for December 5, 1957. Negotiations were opened at Geneva in February of 1958. No new U.S. concessions were involved in these negotiations.

The new agreement provides that Brazil will grant the United States tariff concessions with an estimated 1956 trade value of about \$129 million, or somewhat more than one-third of imports from the United States in that year. Brazil's concessions to the United States include about \$57 million on products on which concessions had been negotiated with the United States in the previous Brazilian schedule to the general agreement (or, in terms of 1956 trade, somewhat more than half the total trade so negotiated); about \$61 million on products formerly negotiated with other countries in which the United States has obtained a principal or important supplier position; and some \$11 million on products not previously included in the Brazilian schedule. The new schedule also includes a number of concessions on products in which there is little or no trade at present but which have a potential for future growth. Products on which concessions were negotiated with the United States in the previous schedule which do not appear in the new schedule (about \$51 million in terms of 1956 trade) are, in general, those in which trade is declining, or is expected to decline, because Brazil has developed domestic production since the previous schedule was negotiated, or because Brazil plans to develop domestic production in the near future.

While the United States will also benefit by Brazil's concessions to a number of other contracting parties to the GATT with which Brazil has completed negotiations, the trade coverage of such benefits will be appreciably less than heretofore. In part, this is because many concessions formerly negotiated by Brazil with other countries have now been negotiated with the United States.

On the United States side the agreement provides that the United States will maintain in its schedule to the general agreement existing com-

¹ For background, see BULLETIN of Dec. 3, 1956, p. 893.

² *Ibid.*, Nov. 18, 1957, p. 804.

mitments of initial negotiation to Brazil on 9 concessions of the 51 previously negotiated with Brazil. These nine concessions include, among other products, coffee, cacao, tapioca, and carnauba wax, all on the free list, as well as menthol, castor oil, shelled and unshelled Brazil nuts, and cacao butter, which are dutiable. Together, these products account for about 90 percent of U.S. imports from Brazil in 1956. Of the remaining 42 concessions, 12 will be withdrawn from the U.S. schedule to the general agreement, and, although the other 30 will remain in the schedule, Brazil will have relinquished any special rights with respect to these products.

In broad lines the new agreement represents an adaptation of the schedules of concessions to the general agreement to changing trade patterns with a neighbor country in process of rapid industrial development.

A detailed analysis of the results of the renegotiations by Brazil with the United States, including a listing of the concessions granted by Brazil, will be published in the first week of March.

\$5 Million Loan Authorized for Guatemalan Rubber Project

Press release 96 dated February 5

The U.S. Development Loan Fund announced on February 5 authorization of a \$5 million loan to the Government of Guatemala to help finance the costs of establishing rubber production on 80,000 acres on the Pacific slope of Guatemala.

Dempster McIntosh, DLF Managing Director, said that after the rubber trees have matured it is estimated the project will produce some 40,000 tons of raw rubber worth about \$20 million a year. The project will provide full-time employment for 17,000 men and thus will improve the level of living of about 100,000 persons, or some 3 percent of the population of Guatemala. Furthermore, with some 200,000 acres suitable for rubber production in Guatemala, this project is expected to create an incentive for other rubber-growing projects.

Mr. McIntosh said some authorities expect natural rubber to be in short supply by 1963. If this proves to be the case, he added, the Guatemalan

development will provide a source in the Western Hemisphere upon which the United States will be able to rely.

The money loaned by the DLF will be reloaned through the Bank of Guatemala to private investors. Each investor will be approved by the Guatemalan Ministry of Agriculture and by the Servicio Cooperativo Interamericano de Agricultura. The U.S. International Cooperation Administration will provide technical advice for the project.

With the cost of land and labor included, it is estimated that the equivalent of \$41 million will have to be invested in the project before income can be received from tree tappings at the end of the seventh year. Of this amount, \$24.7 million will be provided by private investors and more than \$4 million will be borrowed locally. The DLF loan of \$5 million will help meet requirements for the first 4 years.

Rubber growing in Guatemala was started with the assistance of the U.S. Department of Agriculture in 1942. With the coffee market depressed, the Guatemalan Government is seeking ways of diversifying production. Hitherto coffee has been Guatemala's principal crop and earns 80 percent of its foreign exchange.

The DLF is negotiating the loan on the basis of repayment in U.S. dollars in 12 years at an interest rate of 5¾ percent.

DLF Grants Loan in Turkey for New Chemical Plant

Press release 103 dated February 10

The U.S. Development Loan Fund on February 10 announced authorization of a \$6.1 million loan to assist in financing the establishment of a new chemical plant near Istanbul, Turkey.

Dempster McIntosh, Managing Director of the DLF, said the plant would be owned by a subsidiary company to be established jointly by Vinylex Limited Sirketi, a private Turkish manufacturing and trading company; two Italian firms, Sicedison, S.P.A., and Oranzio de Nora; and Monsanto Chemical Co., of St. Louis. The loan would be guaranteed by Vinylex and by the Turkish shareholders of Vinylex.

The plant will produce polyvinyl chloride resins and compounds, caustic soda, calcium carbide, and related chemicals.

Plastic chemicals produced by the new firm will provide raw material for the manufacture of commercial piping, cable coverings, mine vent tubes, tarpaulins, and a variety of consumer goods ranging from waterproofing materials to floor covering.

Caustic soda is mainly used by textile, soap, rayon, and paper industries, and vegetable oil refineries. Most of the calcium carbide to be produced by the new plant will be converted into acetylene gas for the production of polyvinyl chloride resins, and the remainder will be marketed for use in industrial welding applications.

Mr. McIntosh explained that, although Turkey has the basic raw materials for the development of a heavy chemical industry, it has, for lack of know-how and capital, been importing the types of production to be manufactured in the new plant. The new plant is expected to result in annual foreign exchange savings of about \$2 million.

DLF Loan to Philippines for Highway Projects

Press release 100 dated February 9

The U.S. Development Loan Fund has announced authorization of a loan of up to \$18,750,000 to the Republic of the Philippines for the foreign-exchange procurement of equipment, machinery, materials, and maintenance items needed to build roads and bridges. The Philippine Government is investing a roughly equivalent amount in pesos in the total undertaking.

Dempster McIntosh, Managing Director of the DLF, explained that the loan covers six projects which are considered by DLF representatives and the Philippine Government to have priority among a large group of proposals submitted by the Philippines for DLF financing. The projects are:

1. Purchase of spare parts to maintain almost \$50 million worth of highway and public works equipment, 40 percent of which is now inoperative or operating well below maximum efficiency for want of foreign exchange to buy parts. Rehabilitation of this machinery is necessary to assist with improvement and expansion of the highway system of the Philippines.

2. The replacement of temporary bridges throughout the islands. Most of these are wooden bridges originally built to replace others destroyed during the war. They are exposed to washout during the typhoon season and are costly to maintain. In some cases roads will have to be abandoned if these bridges cannot be replaced. Replacement will help open underdeveloped areas, help farmers reach markets, and encourage settlement.

3. Improvement of a 244-kilometer highway on Mindanao Island. This road, the main one of the region, is in bad condition and crosses two rivers where traffic must be carried by ferries. Bridges are to be built.

4. Construction of a 28-kilometer diversion road leading north out of Manila. At present there is only one two-lane road out of Manila connecting with the road system of northern Luzon, an area populated by 5 million people. The new four-lane, limited-access road will provide an alternate route through the highly populated area around Manila.

5. Construction of a similar diversion road leading south from Manila will accomplish a similar purpose.

6. Replacement of nine temporary U.S. Army Bailey bridges on a main road in northern Luzon. The area served by this road includes mines and a large powerplant. The Bailey bridges are inadequate for present requirements and are costly to maintain.

The DLF loan will bear 3½ percent interest and will be guaranteed by the Philippine Government. Repayment will be in Philippine currency, partly within 5 years and the remainder within 10 years.

The Economic Report of the President (Excerpts) ¹

FOREIGN ECONOMIC POLICY ²

Next to maintaining the mutual security of the Free World, the chief concern of the United States in its foreign economic policy is to promote conditions favorable to the exchange of goods, services, technology, and capital among nations, and to assist in economic growth and development. The efforts to rebuild and expand the economy of Western Europe and Japan, to which we have contributed so much, have met with remarkable success. We can now look forward to increasingly effective participation by the industrial nations of Europe in the task of supplying credit and investment capital, along with goods and services, to the less developed areas of the world.

The United States will continue to share with friendly nations its advanced technology and the achievements of its scientific research in public health, resource development, agriculture, industry, and commerce. This policy will be continued through our technical assistance programs, as well as through international agencies.

The impressive gains of the European economies have been accompanied by efforts at removing hindrances to foreign trade. At the end of 1958, the leading European countries made their currencies convertible for nonresidents. Simultaneously, the European Payments Union was replaced by the European Monetary Agreement, which had been prepared by the Organization for European Economic Cooperation several years earlier, to become effective when currency convertibility measures were taken. Although these countries have not given up their foreign exchange control, their step implies the intention of proceeding further

with the removal of discriminatory controls and other import restrictions, beyond the liberalization measures adopted in recent months by the United Kingdom, France, and others.

The European Economic Community of six continental countries, which came into existence on January 1, 1958, has lowered duties by 10 percent and liberalized quota restrictions as a first move in connection with the development of its common market. Some of these concessions have been extended to other countries.

The United States is favorably disposed toward such regional reduction and eventual elimination of trade barriers; but as a signatory to the General Agreement on Tariffs and Trade, it insists on the principle that such regional arrangements must lead to the creation of more favorable trade relations with other countries. The new authority provided by the Congress last year by the four-year extension of the Trade Agreements Act ³ will be used in further efforts to reduce trade barriers on a reciprocal basis, and the enlarged loan authority of the Export-Import Bank will promote United States exports as well as contribute to economic growth abroad.

The increasing participation of other industrial countries in financing the flow of trade and the development of industrially retarded countries is reassuring and welcome, inasmuch as additional economic resources are thus brought into action. However, the task of financing sound and sustainable economic development in large areas of Latin America, Africa, and Asia is of such scope and urgency that it requires joint efforts. In this connection, the Government of the United States, together with other members of the International Monetary Fund and the International Bank for

¹H. Doc. 28, 86th Cong., 1st sess.; transmitted to the Congress on Jan. 20; for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. (75 cents).

²Excerpt from chapter 4, "A Program for Economic Growth With Price Stability," pp. 57-59.

³For the principal provisions of the act and an analysis of trade agreements legislation, see BULLETIN of Oct. 6, 1958, p. 542; Dec. 22, 1958, p. 1013; and Dec. 29, 1958, p. 1050.

Reconstruction and Development, is proposing that the resources of those institutions be enlarged.⁴ Special legislation will be proposed to the Congress.

The United States is exploring the feasibility of cooperating with other countries in their efforts to establish regional agreements on freer trade and economic development. An inter-American development banking institution is under consideration.⁵ The United States has also expressed its readiness to support a regional Arab development institution,⁶ should the Arab states desire it and support it with their own capital. Also under study is an International Development Association,⁷ which would be affiliated with the International Bank for Reconstruction and Development and would extend to less developed countries loans repayable wholly or partially in the currency of the borrowing country. Requests for authorizations for some of these programs will be submitted in due time to the Congress.

The Development Loan Fund, which began in 1958 to extend loans for economic growth in less developed countries, needs additional obligational authority.

Authorization for sales of surplus agricultural commodities for foreign currency under Title I of Public Law 480 and for the donation of such commodities for famine relief and other assistance under Title II expires December 31, 1959. In view of the continued existence of heavy surpluses of farm products and the desirability of using such stocks constructively, the authority should be extended.

UNITED STATES FOREIGN TRADE AND PAYMENTS¹

Changes during the past two years in the economic situation in the United States and abroad inevitably affected this country's foreign trade and payments. While imports were well main-

⁴ For announcements by the Bank and the Fund, see *ibid.*, Feb. 23, 1959, p. 279.

⁵ *Ibid.*, Jan. 12, 1959, p. 48.

⁶ *Ibid.*, Sept. 1, 1958, p. 337.

⁷ *Ibid.*, Apr. 7, 1958, p. 564.

⁸ Excerpt from appendix C, "Some Major Economic Developments in 1958," pp. 122-131.

tained, exports declined sharply after mid-1957; as a result, the United States surplus on transactions in goods and services in the first half of 1958 was much below the high level attained a year earlier and about the same as in 1956 (Table C-22). At the same time, the net outflow of capital remained considerably above the early 1956 rate. These changes resulted in substantial additions to foreign gold and liquid dollar assets. Thus a movement which had proceeded for several years before the Suez crisis was resumed, but at a higher rate.

TABLE C-22.—United States balance of payments, selected periods, 1952-58¹

| [Millions of dollars] | | | | | |
|--|--|----------------------------------|------------------------|---------------|------------------|
| Receipt or payment | July 1952- June 1956 (annual average) | 1956, first half | 1957, first half | 1958 | |
| | | | | First half | Third quarter |
| | | Seasonally adjusted annual rates | | | |
| United States receipts ¹ | 18, 955 | 22, 970 | 27, 716 | 22, 946 | 23, 324 |
| Merchandise exports..... | 13, 401 | 16, 246 | 20, 044 | 16, 154 | 16, 324 |
| Services and military transactions..... | 5, 259 | 6, 160 | 7, 086 | 6, 764 | 7, 000 |
| Foreign long-term investments in United States..... | 295 | 564 | 586 | 28 | ----- |
| United States payments ¹ ... | 20, 903 | 24, 408 | 27, 860 | 26, 334 | 26, 876 |
| Merchandise imports..... | 11, 154 | 12, 530 | 13, 198 | 12, 538 | 12, 712 |
| Services and military expenditures..... | 5, 983 | 7, 050 | 7, 336 | 7, 518 | 7, 880 |
| Remittances and pensions..... | 601 | 610 | 686 | 676 | 724 |
| Government grants and related capital outflows (net)..... | 2, 128 | 2, 428 | 2, 978 | 2, 454 | 2, 412 |
| United States private and other Government capital outflows (net)... | 1, 037 | 1, 790 | 3, 662 | 3, 148 | 3, 148 |
| Excess of receipts or payments: | | | | | |
| All transactions..... | -1, 948 | -1, 438 | -144 | -3, 388 | -3, 552 |
| Goods and services..... | 1, 523 | 2, 826 | 6, 596 | 2, 862 | 2, 732 |
| Capital, grants, remittances and pensions..... | -3, 471 | -4, 264 | -6, 740 | -6, 250 | -6, 284 |
| Errors and omissions (net receipts)..... | 303 | 214 | 1, 148 | 386 | 376 |
| Increase in foreign gold and liquid dollar assets through transactions with the United States..... | 1, 645 | 1, 224 | -1, 004 | 3, 002 | 3, 176 |

¹ The selection of periods is dictated by the behavior of certain major items in the balance of payments, especially that of United States exports. Mid-1952 to mid-1956 provides a base period of more or less normal development of trade and payments after the repercussions of the Korean conflict were over and before the effects of the Suez crisis were felt; the first half of 1956 is given separately to show the levels prevailing at the end of that period. The first half of 1957 shows United States exports and other transactions at their peak, influenced by the general level of economic activity as well as by the Suez situation and other special forces. The first half and third quarter of 1958 give the more current situation, affected by the recession and other developments.

² Transfers of military aid are excluded both from exports (under receipts) and from grants (under payments).

SOURCE: Department of Commerce.

From the first half of 1957 to the first half of 1958, the value of United States merchandise exports fell more—in relative as well as absolute

terms—than those of all other countries combined (Table C-23; also Chart 11 in Chapter 2^o). The reduction in the value of exports of foreign countries was due chiefly to a fall in export prices of the primary producing countries. Exports of the industrially developed countries declined relatively little, and, unlike those of the United States, remained significantly higher in the first six months of 1958 than in the first half of 1956. Exports, adjusted for seasonal variations, of these other industrial countries rose moderately again in the third quarter of 1958; and exports of the United States were slightly higher in that quarter than earlier in the year.

TABLE C-23.—Exports of the United States and other countries, 1956-58

| Period | United States | Foreign countries ¹ | | |
|---|---|--------------------------------|-----------------------------------|------------------------------|
| | | Total | Western Europe, Canada, and Japan | Other countries ² |
| | Billions of dollars, seasonally adjusted annual rates | | | |
| 1956: First half..... | 16.2 | 73.4 | 43.2 | 30.2 |
| Second half..... | 18.4 | 75.0 | 44.8 | 30.2 |
| 1957: First half..... | 20.0 | 79.6 | 47.9 | 31.7 |
| Second half..... | 18.6 | 79.6 | 48.2 | 31.4 |
| 1958: First half..... | 16.1 | 77.1 | 47.2 | 29.9 |
| Third quarter..... | 16.3 | 78.6 | 47.9 | 30.7 |
| | Percent | | | |
| Change, first half 1957 to first half 1958: | | | | |
| Value..... | -19.5 | -3.1 | -1.5 | -5.7 |
| Unit value..... | -5 | -4.0 | -2.0 | -6.5 |

¹ Excludes exports of U.S.S.R. and Soviet bloc countries.

² Includes Ireland, Iceland, Finland, Spain, and Yugoslavia.

³ Preliminary.

SOURCES: Department of Commerce, International Monetary Fund, and United Nations.

Examination of the export performance of the United States discloses that by far the greater part of the recent decline, as well as much of the sharp rise immediately preceding it, is attributable to developments in a few products. Six major commodities or commodity groups, which usually constitute only about 30 percent of total United States exports, accounted for most of the rise from the first half of 1956 to the first half of 1957 and for about three-fourths of the fall in the first half of 1958 (Table C-24).

Special circumstances dominated the movements of petroleum, cotton, and wheat. Petroleum exports were temporarily swollen in the first half

* Not printed here.

of 1957 by the interruption of traffic through the Suez Canal. Cotton exports, which had been abnormally low in the first half of 1956, pending a revision of the United States export price, rose subsequently when foreign stocks were being replenished, but later declined, although they still were relatively high. Wheat shipments were exceptionally large for a time because of the poor 1956 harvest in Europe and because of deliveries to the Far East under special programs.

Two other export items—metals and coal—proved to be extremely sensitive to changes in demand—first when foreign production capacity was strained during the boom and later when excess capacity emerged. The effect of this changed world market situation on United States steel exports has been aggravated by intensified price competition from foreign suppliers. United States coal remains strongly competitive at its landed price abroad, but it is encountering serious obstacles in Europe. There, stocks have piled up at pithead because of continued high coal production in the face of decreased demand as a result of reduced activity in the European steel industry, cuts in users' stocks, gains in coal-burning efficiency, and further displacement by fuel oil.

Exports of automobiles, parts, and accessories have shown a general and pronounced decline, after having failed to share in the over-all rise in United States exports in 1957. The decline in 1958—especially that in exports of motor trucks which had previously increased—is attributable in considerable part to cyclical influences. Exports of passenger cars and of chassis, however, have fallen over the last several years so much that they now represent only a quarter of the total value of exports of this group. Meanwhile, exports of foreign cars have risen rapidly; in the first half of 1958, their value was equivalent to five times the American exports of passenger cars and chassis. The growth in demand abroad for the small foreign models reflects the spread of the market to lower income groups, the increase in traffic congestion in many cities, steeply graduated taxes on large cars and high gasoline taxes in many countries, continued restrictions on car imports in the producing countries, and, in some other countries, preferential import treatment for small cars.

In addition to the influence of the shifts in the major export items just discussed, United States

TABLE C-24.—*Change in United States exports, 1956 to 1958*

(Millions of dollars, annual rates)

| Commodity group ¹ | Exports, first half 1956 | Change | |
|--|--------------------------|------------------------------------|------------------------------------|
| | | First half 1956 to first half 1957 | First half 1957 to first half 1958 |
| Total exports, excluding "special category"..... | 16,294 | 3,690 | -3,920 |
| Six main items in the decline ² | 5,029 | 2,357 | -2,992 |
| Crude petroleum and selected fuels ³ | 214 | 582 | -617 |
| Raw cotton including linters..... | 494 | 794 | -422 |
| Wheat..... | 669 | 241 | -335 |
| Coal and related fuels..... | 630 | 224 | -328 |
| Iron and steel-mill products, non-ferrous metals, scrap, and ferro-alloys..... | 1,526 | 562 | -1,030 |
| Automobiles and parts and accessories..... | 1,506 | -46 | -260 |
| Other exports ⁴ | 11,265 | 1,333 | -928 |
| Meat and dairy products, lard, and other edible animal products..... | 383 | 29 | -140 |
| Oils, greases, and other inedible animal products..... | 313 | 21 | -60 |
| Vegetable food products and beverages, excluding wheat..... | 1,235 | -28 | 97 |
| Rubber and manufactures..... | 262 | 46 | -26 |
| Oilseeds and expressed oils..... | 256 | 78 | -137 |
| Wood and paper..... | 444 | 46 | -44 |
| Lubricating oil and other petroleum products..... | 308 | 46 | -72 |
| Metal manufactures..... | 462 | 44 | -20 |
| Machinery, all types..... | 3,612 | 438 | -218 |
| Chemicals and related products..... | 1,244 | 164 | -60 |
| Textile manufactures (semi- and finished manufactures)..... | 632 | 66 | -68 |
| Selected finished manufactures ⁵ | 673 | 91 | -41 |
| All other products ⁶ | 1,441 | 292 | -139 |

¹ Exports grouped to show main products accounting for the decline from first half 1957 to first half 1958. See Table D-73 for additional detail by area. [Not printed here.]

² Includes gas oil, fuel oil, and motor fuel other than aviation gasoline.

³ Includes photographic and projection goods, scientific and professional instruments, musical instruments, miscellaneous office supplies, small arms and ammunition, books, maps, and other printed matter.

⁴ Includes, in addition to miscellaneous items, such exports as tobacco and tobacco products, articles for charity, and total reexports of merchandise.

SOURCES: Department of Commerce and Council of Economic Advisers.

exports have been affected by changes in the economic situation in certain countries. The annual rate of sales to Canada alone in the first half of 1958 was \$750 million below the rate a year earlier. Half of this decline was in exports of products other than the six discussed above (Table D-73 ¹⁰). The decline in sales of machinery to Canada is especially noteworthy since it is in contrast to such sales to most other countries and reflects a slower rate of industrial investment in Canada.

Much of the \$400 million decline in the annual rate of exports to Western Europe (Table D-73 ¹⁰) of items other than the six separately discussed is directly attributable to changes in general business conditions or in agricultural production, though the effects of these changes have been felt by other suppliers as well.

¹⁰ Not printed here.

In summary, the relatively sharp decline in United States exports after the middle of 1957 is accounted for by a combination of factors: the disappearance of certain special circumstances which had, for a time, raised shipments of petroleum, cotton, and wheat to exceptionally high levels; and cyclical shifts which had also lifted certain exports, such as steel and other metals, to unusually high levels but which now leave them temporarily depressed. Both sets of influences have affected United States exports with particular force because of their broad commodity composition, which differs from that of any other industrial country, and to some extent also because of their country distribution. These reasons for the wide swings in United States exports, however, do not diminish the importance of efforts to strengthen the position of the United States in a more highly competitive world market.

Factors of Strength and Weakness in United States Imports

The total value of United States imports, on the other hand, has been relatively well maintained. This comparative strength is attributable to several forces, including particularly the maintenance of consumer demand. As shown in Table C-25, the value of a substantial number of imported commodities has either increased or changed very little. Imports of automobiles, especially, continued to rise during the recession; imports of meat and other foodstuffs, except coffee, were substantially greater in the first half of 1958 than a year earlier, though largely because of temporary conditions affecting domestic supplies of some of these products; and petroleum imports were also higher, but the increase was less than in the first half of 1957, when the rise from a year earlier was due to higher prices as well as greater volume.

The value of imports of coffee in the first half of 1958 was sharply below the value in the same period of 1956 and of 1957. The pressure of coffee supplies on the market resulted in some weakening of prices and therefore in increased caution in dealers' inventory policies; as a result, the volume as well as the price of coffee imports declined.

The other main commodity imports shown in Table C-25 as decreasing are all in the nature of industrial materials. This group as a whole declined by an annual rate close to \$800 million, or

almost 20 percent, from the first half of 1957 to the first half of 1958. Reductions in volume and in price were of about equal importance.

These changes in United States imports affected different supplying countries and areas according to the composition of their exports. Exports

TABLE C-25.—*Change in United States imports, 1956 to 1958*

[Millions of dollars, annual rates]

| Commodity group ¹ | Imports, first half 1956 | Change | |
|--|--------------------------|------------------------------------|------------------------------------|
| | | First half 1956 to first half 1957 | First half 1957 to first half 1958 |
| Total imports for consumption..... | 12, 473 | 323 | -298 |
| Main items increasing ¹ | 3, 220 | 420 | 728 |
| Meats, meat products, and cattle..... | 164 | 24 | 216 |
| Other foods, except coffee..... | 1, 696 | -30 | 190 |
| Petroleum and products..... | 1, 232 | 266 | 114 |
| Automobiles..... | 128 | 160 | 208 |
| Items showing little change ¹ | 3, 611 | 47 | -52 |
| Sawmill products..... | 300 | -68 | -14 |
| Chemicals and related products..... | 290 | -6 | -2 |
| Machinery, including agricultural and office..... | 374 | 70 | 18 |
| Textile manufactures ² | 608 | 4 | -2 |
| Selected finished manufactures ³ | 184 | 34 | -6 |
| All other products..... | 1, 855 | 13 | -46 |
| Main items decreasing ¹ | 5, 642 | -144 | -974 |
| Coffee..... | 1, 500 | -84 | -186 |
| Nonferrous metals, iron ore, ferro-alloys and steel-mill products..... | 2, 028 | 204 | -482 |
| Diamonds, rough, cut, and bort..... | 244 | -52 | -34 |
| Natural crude rubber..... | 450 | -108 | -109 |
| Wool and other textile fibers ⁴ | 416 | -68 | -162 |
| Newsprint and paper base stocks..... | 1, 004 | -36 | -70 |

¹ Imports grouped according to direction of change from first half of 1957 to first half 1958.

² Semimanufactures other than man-made filaments included.

³ Leather goods, photographic goods, scientific and professional instruments, toys and athletic goods, advanced metal manufactures.

⁴ Cotton, silk, man-made filaments, and hard fibers.

NOTE.—Detail will not necessarily add to totals because of rounding.

SOURCE: Department of Commerce.

from the Middle East to the United States increased because of petroleum; those from Mexico and Cuba expanded chiefly because of meat and other foodstuffs. On the other hand, exports to the United States from the coffee-supplying countries in Latin America were depressed, and also those from Canada and Latin American countries for which nonferrous metals and other industrial materials are important. Influenced by good markets for cocoa and for African types of coffee, United States imports from Africa were well maintained. Imports from Europe fluctuated very little, as increases in automobiles offset decreases in steel and other metals. Imports from Japan rose, but those from other areas in the Far

East fell because of smaller United States purchases of rubber and tin.

Increase in United States Investment Abroad

Like receipts from exports, the net outflow of funds in the form of capital investment and grants from the United States had risen to a peak in the first half of 1957. The subsequent decline, however, was smaller than the decrease in exports, and the net outflow of funds in the first six months of 1958 still exceeded that in the corresponding period in 1956 or earlier (Table C-22). The large outflow in 1957 included substantial payments for oil concessions (Table D-72 ¹¹) and related investment activities in Venezuela. The net outflow of capital exclusive of these payments continued to increase during each of the last several years. Preliminary estimates indicate that the net outflow in the third quarter of 1958, adjusted to correct for the usual summer lull, was about the same as in the first half of the year, though with offsetting changes in the component items.

The largest increase over the first half of 1956—at least up to mid-1958—was in new foreign security offerings; United States private direct investment abroad, after a considerable expansion in 1957, fell back to its earlier level. (For details by type and area of investment, see Tables D-71 and D-72.¹¹) Private short-term credits abroad and Government lending have also risen, while the inflow of foreign redemption payments to American bondholders and of foreign long-term investment in this country has declined.

There may also have been some unrecorded capital outflow, following the large shifts of funds to the United States during the Suez crisis and the subsequent currency speculation in Europe. By their nature, such shifts frequently do not appear in the recorded data on capital flows, and the only evidence of these movements lies in the behavior of the residual items (errors and omissions) in the United States global balance of payments (Tables C-22 and D-71 ¹¹). This item normally shows unidentified receipts of several hundred million dollars annually, because of overestimates of certain payments or underestimates of certain receipts for which precise records are not available. With due allowance for this de-

¹¹ Not printed here.

iciency in the estimates, the inflow of unrecorded capital during the 12 months from October 1956 through September 1957 seems to have reached something like \$1 billion. Any subsequent outflow of these funds has been small, at most, or outweighed by other unrecorded receipts.

The high level of foreign security flotations in the United States during the first half of 1958 is accounted for largely by bond offerings by the International Bank for Reconstruction and Development to finance its growing lending operations abroad, and by Canadian issues. The spread between interest rates in the United States and Canada in the early part of the year gave a particular inducement to the flotation of Canadian issues in the United States market. There has also been, especially in the latter part of 1958, a noteworthy rise in securities offered by overseas countries. Foreign bonds payable in United States dollars have again become an attractive investment medium for security buyers, both in this country and abroad.

The large outflow of public and private capital from the United States since the end of the war has helped to achieve a rapid growth in the world economy. It has also made possible a high volume of United States exports, directly by providing funds which were spent on United States goods and indirectly by leading to the strengthening of foreign reserves and helping to remove obstacles to international trade and payments. When, as recently, foreign purchases of American goods slacken for any reason, a continuing strong flow of dollars for imports and for foreign investment and grants results, for the time being in a faster increase in the gold and dollar holdings of other countries. At the same time, however, these movements strengthen the basis for economic expansion and generate conditions favorable to the growth of United States exports. Such considerations are pertinent to an appreciation of the foreign trade and payments position of the United States in 1958.

Rise in Gold and Dollar Holdings of Industrial Countries

Since the autumn of 1957, foreign countries and international institutions have increased considerably their holdings of gold and liquid dollar assets through transactions with the United

States. During the year ended September 1958, their gains from this source totaled \$0.8 billion in dollar funds and \$1.8 billion in gold. Inclusive of gold acquired from new foreign production or other sources outside the United States, the 12-month gain in gold and dollar balances owned abroad amounted to \$3.4 billion.

This gain, however, accrued almost exclusively to the industrially developed countries; the holdings of other countries decreased considerably. The 12-month changes in foreign gold and dollar holdings (in millions of dollars) were distributed as follows: United Kingdom, +1,380; Netherlands, +421; Belgium, +326; Italy, +416; Federal Republic of Germany, +263; Switzerland, +165; other Western Europe, +545; Canada, +149; Japan, +312; Venezuela, -382; other Latin America, -226; all other countries, -311; international institutions, +351 (see Table D-75¹² for further details). The increases were primarily in reserves of countries which ordinarily hold official reserves chiefly in gold, though some of them also added to their dollar holdings on official or private account. Conversely, the decreases were largely in countries (for example, most Latin American countries), which usually keep most or much of their official reserves in dollars, in addition to private funds held in this currency; however, some of them had to reduce their gold holdings also.

Increase in the Use of Dollars for Multilateral Settlements

The large increases in the gold and dollar holdings of the industrially advanced countries—Western Europe, Canada, and Japan—resulted in considerable part from the strains in the foreign trade and payments of the less developed countries and of certain others which are also exporters of primary products. Domestic inflation, over-importing, and widespread declines in the prices of export commodities and in export earnings in recent years have caused sharp increases in the trade and payments deficits of the primary producing countries with third areas, chiefly Western Europe. (For changes in trade flows, see Chart 11 and Table D-74.¹²) As a regular feature of the multilateral trade system, part of these def-

¹² Not printed here.

icits is usually settled in dollars. Indirect evidence indicates that the amount of dollars so employed recently has been much greater than in the years prior to 1957; in this comparison, 1957 is disregarded because of the exceptionally large def-

TABLE C-26.—*Use of gold and dollars for international settlements, selected periods, 1952-58*

| Area and item | (Millions of dollars) | | | |
|--|--|------------------------|------------------------|------------------------|
| | July 1952- June 1956 (annual average) | 1956, first half | 1957, first half | 1958, first half |
| | | Annual rates | | |
| Western Europe: | | | | |
| Increase in gold and dollar holdings | 1,700 | 1,260 | 625 | 3,540 |
| Less: Net receipts from known transactions with the United States ¹ | 1,250 | 1,070 | -235 | 1,410 |
| Goods and services | 140 | 80 | -1,490 | 285 |
| Capital ² and grants | 1,110 | 900 | 1,245 | 1,125 |
| Equals: Other gold and dollar receipts, net | 450 | 190 | 860 | 2,130 |
| Canada: | | | | |
| Increase in gold and dollar holdings | 55 | 270 | 430 | 440 |
| Less: New gold production | 150 | 155 | 155 | 160 |
| Net receipts from known transactions with the United States ¹ | -875 | -990 | -635 | -75 |
| Goods and services | -970 | -1,725 | -1,920 | -1,250 |
| Capital ² and grants | 395 | 735 | 1,285 | 1,175 |
| Equals: Other gold and dollar receipts, net | 480 | 1,105 | 910 | 355 |
| Japan: | | | | |
| Increase in gold and dollar holdings | 80 | 290 | -785 | 435 |
| Less: Net receipts from known transactions with the United States ¹ | 325 | 350 | -325 | 250 |
| Equals: Other gold and dollar receipts, net | -245 | -60 | -460 | 185 |
| Other countries: | | | | |
| Increase in gold and dollar holdings ³ | 200 | 330 | 800 | -765 |
| Less: New gold production ³ | 665 | 725 | 740 | 785 |
| Net receipts from known transactions with the United States ¹ | 876 | 1,400 | 1,400 | 1,500 |
| Goods and services | -885 | -1,290 | -2,650 | -1,900 |
| Capital ² and grants | 1,756 | 2,690 | 4,050 | 3,400 |
| Equals: Other gold and dollar receipts, net | -1,335 | -1,795 | -1,250 | -3,050 |
| International institutions: | | | | |
| Increase in gold and dollar holdings | 165 | 115 | -900 | 450 |
| Less: Net receipts from known transactions with the United States ¹ | 75 | 40 | 320 | 660 |
| Equals: Other gold and dollar receipts, net | 90 | 75 | -1,220 | -210 |
| Addendum: | | | | |
| Deficiency in sum of net gold and dollar receipts as given above | 590 | 485 | 1,160 | 590 |
| Unidentified transfers, net, to the United States ⁴ | 290 | 315 | 1,250 | 485 |
| Other unidentified uses [or receipts (-)] of gold and dollars, net | 270 | 170 | -90 | 105 |

¹ See Table D-72 [not printed here]. The balance for Japan, however, is a rough estimate by the Council of Economic Advisers, and the figures for "other countries" have been adjusted accordingly to exclude Japan.

² Includes movements of long- and short-term U.S. capital and of foreign long-term investments in the United States (other than United States Government securities).

³ Excludes gold holdings and gold production of the U.S.S.R. and other countries of the Soviet bloc.

⁴ Errors and omissions item in Table D-71 [not printed here], expressed as an annual rate rounded to the nearest \$5 million.

NOTE.—The area or country figures on "other gold and dollar receipts" (derived as a residual in the manner indicated above) include not only inter-area settlements but also unrecorded transfers to the United States. The latter are known only on a net global basis (as the errors and omissions item in the United States over-all balance of payments). They explain, as shown in the addendum to the table above, most of the discrepancy between the sums of the plus and minus figures for "other gold and dollar receipts." The remainder of the discrepancy would, in principle, represent the net effect of such operations as (a) use of gold in the arts and industry or for hoarding and (b) receipts of gold from disbanding or from Soviet sales.

SOURCE: Council of Economic Advisers.

icits on trade or capital account of certain Western European countries and Japan.

The data in Table C-26 (though subject to a considerable margin of error) suggests that the net annual rate of gold and dollars used for multilateral settlements by the countries exporting primary goods was at least \$1 billion or more higher in the first half of 1958 than in the first half of 1956, and higher still in comparison with the 1952-56 average. The fact that the net receipts of gold and dollars of Western Europe, Canada, and Japan via multilateral settlements have risen by a still greater amount in the period since 1956 reflects the increased activity of the International Monetary Fund—which has helped to relieve strains in international payments—and the increase in loans by the International Bank for Reconstruction and Development.

The increase in multilateral settlements, far more than any change in the net receipts of the industrial countries from the United States, accounts for the recent large increases in the gold and dollar accumulations of this group of countries.

By far the greater part of dollar settlements of the primary producing countries with the industrial group has been covered by their net receipts from the United States, as shown in Table C-26. These receipts, together with the growing financial support given by the United States through international institutions, have effectively assisted in rebuilding and strengthening the framework of multilateral trade and payments and have contributed much to the progress in overcoming restrictive forces in the world economy.

For the remainder of their multilateral gold and dollar settlements, the primary producing countries have drawn on their accumulated gold and dollar holdings. In addition, they reduced their balances in other currencies; sterling balances alone were drawn down in the first half of 1958 at an annual rate of some \$300 million, compared with no reduction two years earlier.

Preliminary estimates indicate that in the third quarter of 1958 the primary producing countries continued to make large settlements in gold and dollars, covered partly by their net receipts from the United States and partly by further drawings on their reserves. Canada also showed net payments for the quarter, though perhaps for sea-

sonal reasons. Western Europe's net gold and dollar receipts from third countries continued at about the same rate as earlier in the year; these receipts, together with a large surplus in transactions with the United States, caused Western Europe's gold and dollar holdings to rise further.

United States Export Performance and the Adjustment Problem

The increase in the foreign investment and other payments of the United States in recent years has not been matched by an equally large growth in its exports of goods and services. The annual rate of outflow through private and public investments and grants, net of foreign long-term investment in this country, was some \$2.8 billion higher in the first three quarters of 1958 than in 1952-56 (Table C-22). Imports of goods and services together with military expenditures abroad rose over the same period by \$3.1 billion. Thus, the total increase in these transactions was \$5.9 billion.

Exports of goods and services have risen about \$4.4 billion above the 1952-56 average, or at an annual rate of 6 percent. Most of this increase had occurred by 1956, and was surpassed temporarily in 1957 because of exceptional demand forces at that time. The level actually attained in 1958 can be regarded as a significant increase in relation to earlier years, since foreign economic conditions last year were not favorable to the normal development of United States exports. Some major shifts in international trade were unavoidable, not only because of the cessation of certain conditions (such as those related to the Suez crisis) that had prevailed in the early part of 1957, but also because various maladjustments had arisen during the previous period of rapid growth (see Chapter 2¹³). Contrasting developments

during the two latest recessions illustrate the significance of sustained world economic growth for United States exports. While United States imports slackened in the 1953-54 recession and remained weak for some time, exports, after only a momentary pause, followed the upward course of economic activity abroad (Charts 10 and 11¹³) and contributed to recovery in the United States.

Congressional Documents Relating to Foreign Policy

86th Congress, 1st Session

- Studies of Foreign Policy. Report to accompany S. Res. 31. S. Rept. 2. January 20, 1959. 6 pp.
- Reception of Foreign Dignitaries. Report to accompany S. Res. 32. S. Rept. 3. January 20, 1959. 3 pp.
- Economic Report of the President. H. Doc. 28. January 20, 1959. 223 pp.
- Twenty-first Semiannual Report on Educational Exchange Activities. The 21st semiannual report on the Educational Exchange Activities from July 1 through December 31, 1958, pursuant to Public Law 402, 80th Congress. H. Doc. 55. January 26, 1959. 17 pp.
- Additional Personnel for the Committee on Foreign Relations. Report to accompany S. Res. 30. S. Rept. 17. January 30, 1959. 2 pp.
- Study of U.S. Foreign Policy. Report to accompany S. Res. 31. S. Rept. 18. January 30, 1959. 2 pp.
- Reception of Foreign Dignitaries. Report to accompany S. Res. 32. S. Rept. 19. January 30, 1959. 3 pp.
- Study of International Activities of Federal Executive Branch Departments and Agencies in the Field of Health and Medical Research. Report to accompany S. Res. 42. S. Rept. 22. January 30, 1959. 10 pp.
- Investigation of Immigration and Naturalization Matters. Report to accompany S. Res. 55. S. Rept. 26. January 30, 1959. 6 pp.
- Review of the Administration of the Trading With the Enemy Act. Report to accompany S. Res. 56. S. Rept. 32. January 30, 1959. 3 pp.
- Study of Refugees and Escapees by the Committee on the Judiciary. Report to accompany S. Res. 52. S. Rept. 33. January 30, 1959. 2 pp.
- Ninth Semiannual Report on Activities Carried on Under Public Law 480, 83d Congress, as Amended. Message from the President transmitting the ninth semiannual report on activities carried on under Public Law 480, 83d Congress, as amended, outlining operations under the act during the period July 1 through December 31, 1958. H. Doc. 60. January 29, 1959. 72 pp.
- Twenty-fifth Semiannual Report of the Atomic Energy Commission—January 1959. S. Doc. 2. 386 pp.

¹³ Not printed here.

INTERNATIONAL ORGANIZATIONS AND CONFERENCES

Calendar of International Conferences and Meetings¹

Adjourned During February 1959

| | | |
|---|---------------------------|-----------------|
| ICAO Middle East-Southeast Asia Regional Air Navigation Meeting | Rome | Jan. 7-Feb. 4 |
| U.N. ECAFE Committee on Trade: 2d Session | Bangkok | Jan. 23-Feb. 2 |
| ILO Committee of Social Security Experts | Geneva | Jan. 26-Feb. 7 |
| U.N. Wheat Conference: Negotiating Meeting | Geneva | Jan. 26-Feb. 27 |
| International Sugar Council: 1st Session | London | Jan. 28-Feb. 3 |
| ITU International Telegraph and Telephone Consultative Committee (CCITT): Study Group VIII | Geneva | Feb. 2-14 |
| Inter-American Tropical Tuna Commission: Annual Meeting . . | San Pedro, Calif. | Feb. 5-6 |
| U.N. ECAFE Committee on Industry and Natural Resources: 11th Session | Bangkok | Feb. 5-12 |
| FAO Technical Meeting on Cacao Production | Accra, Ghana | Feb. 8-15 |
| GATT Committee I on Expansion of International Trade | Geneva | Feb. 9-13 |
| U.N. Population Commission: 10th Session | Geneva | Feb. 9-20 |
| FAO Experts on Rice Grading and Standardization: 4th Meeting . | Colombo | Feb. 12-14 |
| ITU International Telegraph and Telephone Consultative Committee (CCITT): Study Group IX (Radio Relay Systems) | Geneva | Feb. 12-21 |
| South Pacific Commission: Rhinoceros Beetle Technical Advisory Committee | Suva, Fiji | Feb. 16-20 |
| FAO Committee on Commodity Problems: 3d Meeting of Consultative Subcommittee on Economic Aspects of Rice | Colombo | Feb. 16-24 |
| GATT Consultations with European Economic Community on Trade in Tropical Commodities | Geneva | Feb. 16-28 |
| U.N. ECE Conference of European Statisticians: Meeting on Statistics of Changes in Financial Assets and Liabilities | Geneva | Feb. 23-27 |
| International Bureau of Education: Executive Committee | Geneva | Feb. 24-25 |
| IAEA Seminar on Medical Radioisotopes Scanning | Vienna | Feb. 25-27 |
| Foundation for Mutual Assistance in Africa South of the Sahara . . | Monrovia | Feb. 27-28 |

In Session as of February 28, 1959

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| Political Discussions on Suspension of Nuclear Tests | Geneva | Oct. 31- |
| U.N. Trusteeship Council: 23d Session | New York | Jan. 30- |
| ICAO: Special Meeting on Short-Range Navigational Aids | Montreal | Feb. 10- |
| U.N. General Assembly: 13th Session (resumed) | New York | Feb. 20- |
| FAO/ECLA Seminar on Agricultural and Food Price Policies . . . | Santiago | Feb. 23- |
| ILO Governing Body: 141st Session (and committees) | Geneva | Feb. 23- |

Scheduled March 1 Through May 31, 1959

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|---|---|---------|
| GATT Committee II on Expansion of International Trade | Geneva | Mar. 2- |
| UNICEF Executive Board and Program Committee | Geneva | Mar. 2- |
| Caribbean Commission: Conference on Revision of Agreement for Establishment of the Commission | Trinidad | Mar. 9- |
| U.N. Commission on Status of Women: 13th Session | New York | Mar. 9- |
| European Civil Aviation Conference: 3d Session | Strasbourg | Mar. 9- |
| U.N. Economic Commission for Asia and the Far East: 15th Session | Broadbeach, Queensland, Australia | Mar. 9- |
| U.N. International Commission on Commodity Trade: 7th Session . | New York | Mar. 9- |
| Pan American Highway Congresses: Technical Committee of Experts on Development of Governmental Highway Agencies | Lima | Mar. 9- |

¹ Prepared in the Office of International Conferences, Feb. 13, 1959. Asterisk indicates tentative date. Following is a list of abbreviations: CCIR, Comité consultatif international des radio communications; CCITT, Comité consultatif international télégraphique et téléphonique; ECAFE, Economic Commission for Asia and the Far East; ECE, Economic Commission for Europe; ECLA, Economic Commission for Latin America; ECOSOC, Economic and Social Council; FAO, Food and Agriculture Organization; GATT, General Agreement on Tariffs and Trade; IAEA, International Atomic Energy Agency; IA-ECOSOC, Inter-American Economic and Social Council; ICAO, International Civil Aviation Organization; ICEM, Intergovernmental Committee for European Migration; ILO, International Labor Organization; ITU, International Telecommunication Union; NATO, North Atlantic Treaty Organization; PASO, Pan American Sanitary Organization; SEATO, Southeast Asia Treaty Organization; TAA, Technical Assistance Administration; U.N., United Nations; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNICEF, United Nations Children's Fund; UPU, Universal Postal Union; WMO, World Meteorological Organization.

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|---|------------------------------|----------|
| UPU Consultative Committee on Postal Studies: 2d Meeting of Administrative Council. | The Hague | Mar. 9- |
| IAEA Board of Governors: Special Meeting | Vienna | Mar. 10- |
| GATT Committee III on Expansion of International Trade | Geneva | Mar. 11- |
| U.N. ECE <i>Ad Hoc</i> Working Party on Gas Problems: 5th Session | Geneva | Mar. 11- |
| ILO Asian Advisory Committee: 9th Session | Geneva | Mar. 16- |
| International Sugar Council: 2d Session | London | Mar. 16- |
| GATT Working Party on Association of Yugoslavia | Geneva | Mar. 16- |
| U.N. ECE Road Transport Subcommittee: Working Party on Construction of Vehicles | Geneva | Mar. 16- |
| U.N. Commission on Human Rights: 15th Session | New York | Mar. 16- |
| U.N. ECE Electric Power Committee | Geneva | Mar. 18- |
| ICAO Panel for Coordinating Procedures Respecting the Supply of Information for Air Operations | Montreal | March |
| FAO/ECAFE Technical Meeting on Agricultural Marketing | undetermined | March |
| IA-ECOSOC Permanent Technical Committee on Ports: 2d Meeting | Montevideo | March |
| Interparliamentary Council: 84th Meeting | Nice | Apr. 1- |
| World Meteorological Organization: 3d Congress | Geneva | Apr. 1- |
| ITU International Radio Consultative Committee (CCIR): 9th Plenary Assembly | Los Angeles | Apr. 1- |
| U.N. International Study Group on Lead and Zinc | México, D.F. | Apr. 1- |
| ICEM Executive Committee: 12th Session | Geneva | Apr. 2- |
| NATO Ministerial Council | Washington | Apr. 2- |
| 2d FAO World Fishing Boat Congress | Rome | Apr. 5- |
| GATT Panel on Antidumping and Countervailing Duties | Geneva | Apr. 6- |
| GATT Panel on Subsidies and State Trading | Geneva | Apr. 6- |
| ICEM Council: 10th Session | Geneva | Apr. 7- |
| U.N. Economic and Social Council: 27th Session | México, D.F. | Apr. 7- |
| SEATO Council: 5th Meeting | Wellington | Apr. 8- |
| ILO Meeting To Establish an Individual Control Book for Drivers and Assistants in Road Transport | Geneva | Apr. 20- |
| U.N. Economic Commission for Europe: 14th Session | Geneva | Apr. 20- |
| ILO Coal Mines Committee: 7th Session | Geneva | Apr. 27- |
| U.N. Commission on Narcotic Drugs: 14th Session | Geneva | Apr. 27- |
| U.N. Social Commission: 12th Session | New York | Apr. 27- |
| ICAO Aeronautical Information Services Division/Aeronautical Maps and Charts Division | Montreal | Apr. 28- |
| WMO Executive Committee: 11th Session | Geneva | Apr. 29- |
| 4th South Pacific Conference | Rabaul, New Guinea | Apr. 29- |
| Caribbean Commission: Conference on the Financing of Agriculture | Trinidad | April |
| ITU International Radio Consultative Committee (CCIR): Study Group III (Fixed Service Systems) | Los Angeles | April |
| U.N. Committee on Information from Non-Self-Governing Territories: 10th Session | New York | April |
| U.N. ECAFE Working Group of Experts on Development Programming | undetermined | April |
| U.N. ECAFE/TAA Regional Seminar on Trade Promotion | Tokyo | April |
| 12th International Cannes Film Festival | Cannes | May 1- |
| U.N. ECLA Committee on Trade | Panamá | May 1* |
| U.N. ECAFE Inland Transport and Communications Committee: Working Party of Telecommunications Experts | Tokyo | May 4- |
| U.N. Transport and Communications Commission: 9th Session | New York | May 4- |
| GATT Intersessional Committee | Geneva | May 6- |
| U.N. Economic Commission for Latin America: 8th Session | Panamá | May 6- |
| International Rubber Study Group: Special Management Committee | London | May 11- |
| GATT Contracting Parties: 14th Session | Geneva | May 11- |
| GATT Committee on Balance-of-Payments Restrictions | Geneva | May 11- |
| GATT Consultations with European Economic Community on Sugar | Geneva | May 11- |
| FAO Cocoa Study Group: Statistical Committee | Rome | May 12- |
| 12th World Health Assembly | Geneva | May 12- |
| International Cotton Advisory Committee: 18th Plenary Meeting | Washington | May 13- |
| FAO International Poplar Commission: 10th Session | Rome | May 13- |
| FAO International Poplar Congress: 7th Session | Rome | May 13- |
| FAO Cocoa Study Group: Executive Committee | Rome | May 13- |
| South Pacific Commission: 19th Session | Rabaul, New Guinea | May 13- |
| FAO Group on Grains: 4th Session | Rome | May 18- |
| U.N. ECOSOC Latin American Seminar on Status of Women | Bogotá | May 18- |
| UNESCO Administrative Commission | Paris | May 18- |
| UNESCO External Relations Commission | Paris | May 18- |
| ITU Administrative Council: 14th Session | Geneva | May 19- |
| 16th World Congress on Veterinary Medicine | Madrid | May 21- |
| UNESCO Executive Board: 54th Session | Paris | May 25- |
| ILO Governing Body: 142d Session (and committees) | Geneva | May 25- |
| PASO Executive Committee: 37th Meeting | Washington | May |

Sixth Session of Ministerial Council of Baghdad Pact

The sixth session of the Ministerial Council of the Baghdad Pact was held at Karachi, Pakistan, from January 26 to 28, 1959. Following is a statement made by the U.S. representative, Deputy Under Secretary Loy W. Henderson, at the time of his departure from Washington, together with Mr. Henderson's statement at the opening meeting of the session and the text of the final communique.¹

DEPARTURE STATEMENT BY MR. HENDERSON, JANUARY 21

Press release 51 dated January 21

Secretary Dulles has asked me to represent the United States at the sixth session of the Ministerial Council of the Baghdad Pact, which will begin in Karachi on January 26. As you know, the Council meets at intervals of 6 months to review developments since its last meeting, to review reports of the various committees, to study the international situation in the area, and to consider proposals to increase further its effectiveness in its several fields of activity.

The Baghdad Pact represents a group of sovereign nations which has freely chosen to work together for mutual security and for the preservation of peace. Their purposes and intentions are wholly defensive in nature and consistent with article 51 of the United Nations Charter.

As you are aware, the period since the last Council meeting has been an eventful one for the member nations and for the Middle East generally. The pact organization has faced some difficult problems, but I believe that by these trials it has been made stronger. I am confident that the meetings next week will result in further development of this regional organization as an effective instrument for the preservation of peace in the area, and hence in the world.

Speaking personally, I am looking forward to visiting Karachi again. I anticipate with pleasure seeing and conferring with old and new friends. I shall express to the Government of Pakistan the appreciation of the United States

Government for its invitation on this occasion, which gives us an opportunity to reaffirm the strong friendship which links the peoples of Pakistan and the United States.

OPENING STATEMENT BY MR. HENDERSON, JANUARY 26

The United States delegation welcomes the opportunity to participate with you in this sixth session of the Baghdad Pact Council. For me, personally, it is a particular pleasure. I see around me many old and valued friends. The opportunity to make new ones is gratifying. My association with this Council dates back to its early period. It is thus a source of real satisfaction to observe the considerable strides the pact has made since I was last privileged to sit at this table. The bonds of friendship and trust of which I then spoke have strengthened with the passage of time. They are bred of mutual respect and confidence. These are the mainstays of the pact association. They augur well for its future.

The United States delegation associates itself with the expressions of appreciation of the warm hospitality of our host, the Government of Pakistan, in so graciously offering us its facilities to assemble here today.

I am charged with bringing you once again the greetings of the President of the United States, the Secretary of State, and the Secretary of Defense. We have their warm wishes for a successful and mutually beneficial session.

Message From President Eisenhower

I have today received a message from President Eisenhower to the Ministerial Council. It runs as follows:

I am pleased that representatives of the nations associated in the Baghdad Pact are convening today in the Pact's Sixth Ministerial Council Session. I have followed the progress of this regional collective security organization with deep personal interest since its inception. The United States believes the instrumentalities which the member governments have created to carry out the pact's purposes are making an important contribution to world peace. We are glad to participate in these activities.

I have asked Ambassador Henderson to represent the United States in your deliberations, and upon his return to report personally to the Secretary of State and me.

I send you my warm wishes for a fruitful meeting.

¹ For a list of the U.S. delegation, see BULLETIN of Feb. 9, 1959, p. 211.

Just before my departure, Secretary Dulles asked me to convey to you his deep regret that he has had to forgo being here today. His heavy schedule, of which I know you are aware, requires his presence in Washington at this time. He has instructed me to speak in his behalf. You may be confident, moreover, that he will follow our discussions closely these next few days.

The American people, too, are following our deliberations with lively interest and with a growing sense of awareness of our purpose and accomplishments.

The United States delegation is pleased to welcome our new Secretary General, Mr. [M.O.A.] Baig, to this Council table; he is well known and deeply respected in our country. He brings to the pact great experience and a reputation for skill and vigor. We are indeed grateful to the Government of Pakistan for making available to us one of its most distinguished public servants. We are confident that under his inspiring leadership the pact will continue to progress. We assure him of our resolve to work with him in that same spirit of harmony which so happily has always marked our relations with the secretariat in the past.

Communist Objective and Techniques

The objective of international communism remains unchanged. Shorn of all its trimmings, it is disquietingly simple—world domination. To this end, incessant struggle is its watchword. It probes unceasingly, searching for weak spots in the perimeter of the free-world community in order to divide, to insert itself, and to extend its influence. Among the instruments which it employs are force, threat of force, economic inducement or pressure, and subversion.

The world has often witnessed its numerous blatant attempts to apply force in the years following World War II. Most recently, in the period since our last meeting, we have seen it in Peiping's unabashed aggression against Taiwan. Even now the threat of force hangs over Berlin. It may strike elsewhere at any time. Yet, from this experience, however grim it has been, the free peoples of the world have learned one salient lesson. It is this: When faced with resolute resistance, international communism is inclined to recede and to turn another face—a face of seeming reasonableness, accompanied by professions of friendship designed to lull nations and peoples

into a false sense of security. Thus light and dark may follow each other with kaleidoscopic swiftness.

Economic warfare is no less important in the Communist repertoire. Trade and aid go hand in hand. The objective of Soviet trade, as Mr. Khrushchev has himself told us, is solely the achievement of political aims. The credits which are extended have as their principal purpose the mortgaging of the future of their recipients.

The duplicity of the proffered hand of Communist friendship is painfully clear in yet another sphere. Communist subversion does not cease simply because relations appear to be placed on a normal basis. Local Communist parties and Communist front organizations unceasingly seek to penetrate the fabric of the political society of nations with which international communism professes friendship. Their purpose is wholly negative—to obstruct, to confuse, to create dissension, when necessary to incite, and, ultimately, to control national policy. They unscrupulously seize upon prevailing economic or social ills to discredit authority. They are impartial in carrying out their programs of destruction. Their aim is to deceive friend and foe alike, as those who have placed trust in them have frequently learned too late. Behind high-sounding phrases, they have no hesitation in thwarting the legitimate aspirations of nations and peoples. Indeed, who would today deny that the so-called "democratic" and "freedom-loving" peoples of the Communist lexicon have been compelled through duplicity and force to accept and wear the halter of Communist domination and exploitation? Those who protest against their miserable and humiliating position are brutally crushed, as we have seen in Hungary and elsewhere.

Role of Baghdad Pact

The free nations of the world have recognized that survival requires concrete measures to meet the threats of international communism.

They have observed how the Communist colossus maneuvers to bring about the isolation from the free world of its intended victims before destroying them. Many free nations, therefore, have chosen to unite their strength in order to present a more solid and a stronger front to international communism. Collective security in a number of regions of the world has become a

reality. Its strength increases with each passing day.

The Baghdad Pact is playing a significant role in this global effort to meet the Communist menace. The efforts of international communism to effect a dissolution of the pact testify to its efficacy. Militarily, it represents a strong element of regional defense. Its military significance, although great, is but one of its advantages. Equally important, it actively concerns itself with sound regional economic development and cooperation. The United States confidently believes that in the years to come the pact will make an ever-increasing contribution to the well-being of its member states and peoples.

The pact is an association of sovereign states who, consistent with article 51 of the United Nations Charter, have freely chosen to cooperate for their security and defense. It threatens no one. While its members firmly believe in the wisdom of collective security, they respect the right of each free nation to choose its own path to security. They ask only that their choice be equally respected by others. These are obvious truths. Yet they deserve to be reiterated in order to dispel the impressions which may have been created by those who persistently misrepresent the aims of the pact.

My Government and the American people have unstintingly supported your initiative. We have done so because we firmly believe in the right of nations and people to be free and to remain so. We will continue to support the pact and its objectives of cooperation for economic progress and for security against the Communist menace.

My Government has made substantial contributions to furthering the pact's aims. Our massive military assistance programs with the several regional states represented here are well known to you. They have been developed in close consultation with you. They have helped to forge a strong shield against would-be aggression. Behind this shield, sound political and economic development, designed to further the best interests of our peoples, can grow. The United States has participated actively in the defense planning of the pact association. In the declaration signed on July 28, 1958, at London,² the United States offered to enter into agreements, pursuant to existing authorization, to cooperate with the Govern-

ments of Pakistan, Turkey, and Iran for their security and defense. In response to your requests, we are ready to do so.

Thus national defense positions are being strengthened. Yet all of us are aware that no group of nations, however determined they may be, can build their individual military strengths to a point where they can meet, in terms of numbers, the Communist force pitted against them. To seek to do so would sap the economic health of these nations. Regional efforts, too, require reinforcement. The United States is prepared to lend such reinforcement.

The nations represented here are aware, I am sure, of my Government's readiness, in case of need, to respond to the request for aid of its friends of the free world who are faced with aggression.

U.S. Support of Economic Programs

My Government also actively supports the economic programs of the pact. We have already allotted a total of \$18 million which will be used to construct a modern microwave telecommunications network among pact capitals—a project to which you have rightly given high priority. An American firm, engaged by my Government, has completed its survey of the proposed route. Its report is now being studied by you. We hope that construction can soon begin. Similarly, my Government has made available to Turkey purchasing authority for \$2 million in roadbuilding equipment to permit construction of vital road links between Turkey and its pact neighbors. It is now examining a Turkish-Iranian application for Development Loan Fund assistance to be used for the contemplated Turkish-Iranian rail link. If our examination convinces us that this project is economically and technically feasible, we are prepared to support it subject to the appropriation of funds. Also we are prepared to support the proposed Baghdad Pact multilateral technical assistance fund to facilitate engaging needed technical assistance for regional projects. This, of course, is in addition to the substantial bilateral economic aid programs that the United States has with the regional states here represented.

This support of pact economic efforts is dictated by our firm belief that sound economic development is an essential ingredient to political stability. United States economic aid, both to individ-

² For text, see *ibid.*, Aug. 18, 1958, p. 272.

ual states and for regional projects, is given with no strings attached. My Government will continue to examine with you possibilities of further sound economic cooperation that will genuinely benefit the peoples of the pact region. With patience and common effort, we are convinced that much can be achieved.

We are assembled here to review our progress to date and to chart a course for future pact programs. We shall also wish to exchange views on world problems that are of interest to us all. The United States delegation will have more to say on some of these matters as our business sessions proceed. In the meantime I wish to assure you that the United State delegation hopes to make its positive contribution to these deliberations.

TEXT OF FINAL COMMUNIQUE, JANUARY 28

KARACHI, January 28, 1959.

The Sixth Session of the Baghdad Pact Ministerial Council was held in Karachi from January 26 to 28, 1959.

The delegations from countries participating in this meeting were led by:

- (i) H.E. Dr. Manouchehr Eghbal . Iran
Prime Minister
- (ii) Mr. Manzur Qadir Pakistan
Foreign Minister
- (iii) H.E. Mr. Adnan Menderes . . Turkey
Prime Minister
- (iv) The Right Honourable Duncan
Sandys, M.P. United Kingdom
Minister of Defence
- (v) The Honourable Loy W. Hen-
derson United States
Deputy Under Secretary of of America
State

Mr. Manzur Qadir, Foreign Minister of Pakistan, was in the chair.

The session was inaugurated by the President of Pakistan, General Mohammad Ayub Khan.

The greater part of the Council meetings was devoted to a free and frank exchange of views between the delegations on the international situation with special reference to those aspects which particularly affect the Pact region. These exchanges have now become a traditionally accepted part of the Pact's meetings and are among its most valuable features.

The heads of delegations reaffirmed the determination of their countries to protect their sovereignty and independence and emphasised the value of the Pact in providing not only for defensive military cooperation but also for economic and technical cooperation in raising the standard of living of their peoples.

The Council considered that the solidarity shown by the members of the Baghdad Pact had contributed to the

increased stability which has prevailed in the Middle East since the Council met last.

Nevertheless, the Council was of the opinion that the threat of direct and indirect aggression had not diminished and should be combatted by all possible legitimate means including action by the United Nations. The Council noted with concern that international Communism continued its efforts to dominate the Pact area. These efforts, the Council concluded, meant that the necessity to strengthen collective security was as great as ever.

Since international Communism exploits points of conflict for the purpose of fomenting dissatisfaction, the Council emphasised the desirability of resolving, in accordance with the principles of justice and the United Nations Charter, all disputes and situations which lend themselves to such exploitation.

The Council considered ways and means to increase political cooperation and reinforce solidarity within the Pact. In order to facilitate continuous political consultation, it was agreed that more use should be made of the meetings of the Council of Deputies at the Pact Headquarters for discussion of international affairs. It was also agreed that the Council of Deputies should co-ordinate the activities of the various subordinate Committees.

The Council decided that the Secretary General would be chairman of the Permanent Council of Deputies.

The Council welcomed the progress which had been made in the field of contacts with other free world collective security organisations in pursuance of the objectives stated at the Council meetings in Ankara¹ and London in January and July 1958.

The Council reviewed the work of the Baghdad Pact Organisation and after discussion, adopted the reports and recommendations of the Secretary General and the Committees.

The Council noted with satisfaction that the Committees had been able to carry out much solid and constructive work during the past six months, and that the Secretariat had been functioning effectively at Ankara. In particular, the reports of the Economic Committee, details of which have been published in a separate communique,² contained a record of substantial progress in the fields of telecommunications, rail and road projects, agriculture, health and scientific co-operation.

The reduction of press telegraphic rates between area members of the Pact and the establishment of a Multilateral Technical Cooperation Fund for expanding technical facilities, were welcomed by the Council as a new and promising initiative. These measures were considered valuable for increasing the supply of technical knowledge to individual countries and for further developing a sense of unity and common purpose among the participating countries.

The Council welcomed the offer of the United Kingdom to provide equipment for a Nuclear Centre to be set up at Tehran. This Centre will provide facilities for training technicians in the use of nuclear energy for peaceful purposes.

The Council decided that the central military organi-

¹ *Ibid.*, Feb. 17, 1958, p. 250.

² Not printed.

sation of the Pact should be strengthened. A proposal for achieving this objective was referred to the Council of Deputies for detailed study and implementation.

The Council commended the work in 1958 of the Second Director of the Combined Military Planning Staff, Lieutenant General Ekrem Akalin of the Turkish Army.

The Council noted that negotiations were proceeding on the bilateral agreements between the United States and the three area member countries referred to in the London Declaration of July 1958.

The Council decided to hold its next session at the Ministerial level at Tehran in about six months time.

Meanwhile, the Council will continue to meet regularly at the Deputies level in Ankara.

Current U.N. Documents:

A Selected Bibliography¹

Security Council

Letter Dated 15 December 1958 From the Permanent Representative of India Addressed to the President of the Security Council. S/4138. December 17, 1958. 1 p. mimeo.

Letter Dated 17 December From the Permanent Representative of Pakistan Addressed to the President of the Security Council. S/4139. December 19, 1958. 5 pp. mimeo.

General Assembly

Report of the Conference of Experts for the Study of Possible Measures Which Might be Helpful in Preventing Surprise Attack and for the Preparation of a Report Thereon to Governments. A/4078 (S/4145). January 5, 1959. 128 pp. mimeo.

Executive Committee of the High Commissioner's Programme. UNREF Progress Report as of 30 September 1958. A/AC.96/4. November 27, 1958. 130 pp. mimeo.

Executive Committee of the High Commissioner's Programme. Programme for New Refugees in Greece. A/AC.96/13. December 11, 1958. 3 pp. mimeo.

Economic and Social Council

Commission on the Status of Women. Status of Women in Family Law. Report of the Secretary-General based on replies from Governments to Part III of the Questionnaire on the Legal Status and Treatment of Women. E/CN.6/185/Add. 16. November 14, 1958. 35 pp. mimeo.

Economic Commission for Asia and the Far East: Committee on Industry and Natural Resources. Report of the Sub-Committee on Iron and Steel (Eighth Session) to the Committee on Industry and Natural Resources (Eleventh Session). E/CN.11/I&NR/12 (E/CN.11/I&NR/Sub.2/4). November 26, 1958. 37 pp. mimeo.

¹ Printed materials may be secured in the United States from the International Documents Service, Columbia University Press, 2960 Broadway, New York 27, N.Y. Other materials (mimeographed or processed documents) may be consulted at certain designated libraries in the United States.

TREATY INFORMATION

Current Actions

MULTILATERAL

Fisheries

Protocol amending the international convention for the northwest Atlantic fisheries of February 8, 1949 (TIAS 2089). Done at Washington June 25, 1958. Entered into force January 10, 1959.

Proclaimed by the President: February 3, 1959.

Trade and Commerce

Fifth protocol of rectifications and modifications to the texts of schedules to the General Agreement on Tariffs and Trade. Done at Geneva December 3, 1955.¹

Signature: Chile, January 23, 1959.

Whaling

International whaling convention and schedule of whaling regulations. Signed at Washington December 2, 1946. Entered into force November 10, 1948. TIAS 1849.

Notification of withdrawal: Japan, February 6, 1959. Effective June 30, 1959.

Protocol amending the international whaling convention of 1946 (TIAS 1849). Done at Washington November 19, 1956.¹

Ratification deposited: Panama, February 9, 1959.

BILATERAL

China

Agreement for the loan of a destroyer to China. Effected by exchange of notes at Taipei February 7, 1959. Entered into force February 7, 1959.

Japan

Agreement supplementing agreement for the loan of United States naval vessels of May 14, 1954 (TIAS 2985), by adding two destroyers. Effected by signature of a procès-verbal and an exchange of notes at Tokyo January 6 and 9, 1959. Entered into force January 9, 1959.

DEPARTMENT AND FOREIGN SERVICE

Designations

John E. Fobes as Special Assistant to the Assistant Secretary for International Organization Affairs, effective February 2.

Alfred Puhan as Director, Office of International Administration, effective February 2.

Edward E. Rice as Deputy Director of Personnel, effective February 16.

¹ Not in force.

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| 100 | 2/9 | DLF loan to Philippines. |
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| *102 | 2/10 | Educational exchange (Latin America). |
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| *105 | 2/11 | Educational exchange (Latin America). |
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| *108 | 2/12 | Educational exchange (Japan). |
| †109 | 2/12 | U.N. ECAFE delegation (rewrite). |
| 110 | 2/13 | Chile credentials (rewrite). |
| *111 | 2/13 | Cultural exchange (Argentina). |
| 112 | 2/13 | Four-power working group on German problem. |
| 113 | 2/14 | Dulles: anniversary of independence of Baltic Republics. |
| *114 | 2/14 | Educational exchange (Middle East and South Asia). |

* Not printed.

† Held for a later issue of the BULLETIN.

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This publication is a guide to treaties and other international agreements in force between the United States and other countries at the beginning of the current year.

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Documents affecting international copyright relations of the United States are listed in the appendix.

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